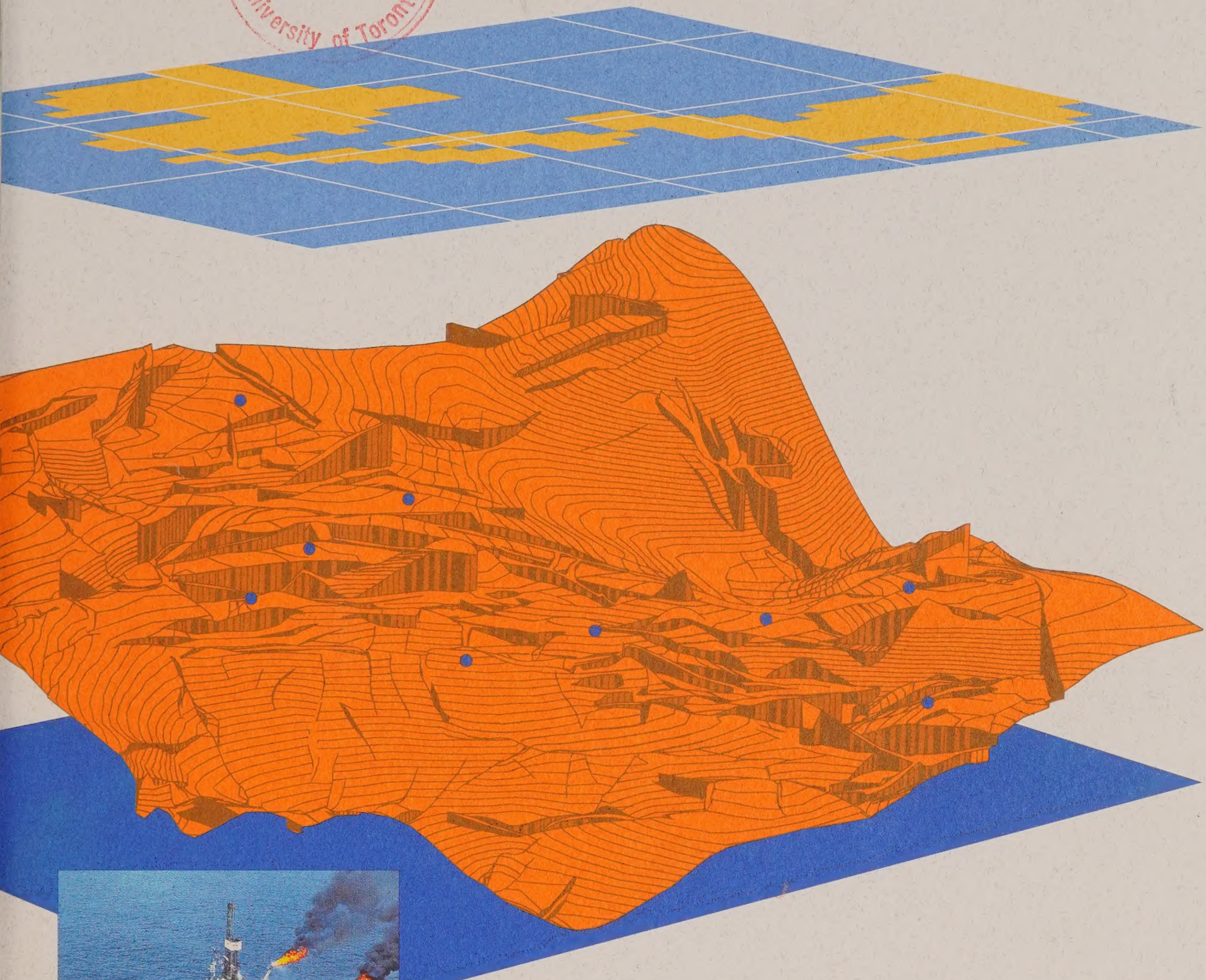
Petro-Canada



PETRO-CANADA IS ENHANCING THE VALUE
OF ITS EXCELLENT ASSET BASE

1990 ANNUAL REPORT

PRINTED ON RECYCLED PAPER

Corporate Profile

Petro-Canada is the largest Canadian-owned oil and gas company, with assets of more than $7 billion and revenue of nearly $6 billion in 1990. It ranks among the leaders in virtually every aspect of the Canadian oil and gas industry.

The Company is organized into two operating divisions and a small corporate staff. Petro-Canada Resources, the "upstream" business, explores for, produces and markets crude oil, natural gas, natural gas liquids and sulphur. The "downstream" business, Petro-Canada Products, refines crude oil and distributes and markets petroleum products and related goods and services. ICG Propane Inc., a wholly owned subsidiary, is Canada's second largest propane retailer.

Working initially to a public policy mandate, Petro-Canada has evolved over time into a fully commercial company. In February 1990, the Government of Canada announced its intention to proceed with the privatization of Petro-Canada.

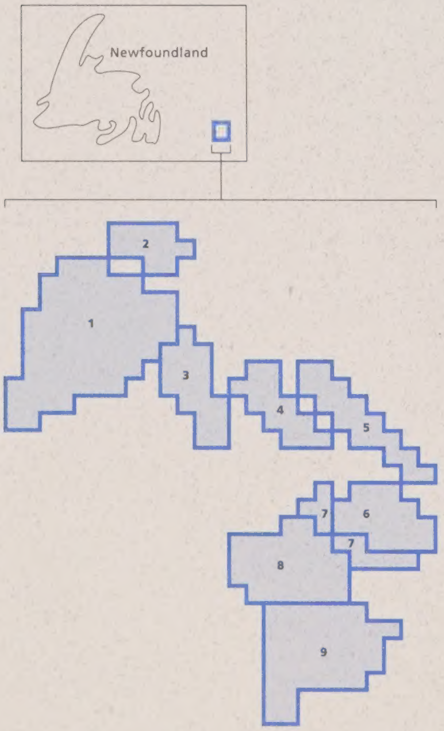
The Petro-Canada Public Participation Act

On February 1, 1991, the Petro-Canada Public Participation Act received Royal Assent. The immediate effects of the Act were:

- The name of Petro-Canada, the Crown corporation which was incorporated in 1975 by the Petro-Canada Act, has been changed to Petro-Canada Limited.
- The name of Petro-Canada Inc., the principal operating subsidiary, has been changed to Petro-Canada.
- The shares of Petro-Canada held by Petro-Canada Limited have been transferred to the Minister of State (Privatization and Regulatory Affairs).
- Petro-Canada is authorized to issue and sell shares.

An initial public offering of Petro-Canada shares is anticipated when market conditions are appropriate. The Government of Canada has indicated its intention to sell, over time, all its shares in Petro-Canada.

For clarity and continuity with future years, the term Petro-Canada in this report refers to the company now called Petro-Canada and formerly called Petro-Canada Inc.



Significant Discovery Areas

1 Hibernia*
2 Nautilus
3 Mara
4 South Mara
5 North Ben Nevis
6 Ben Nevis
7 West Ben Nevis
8 Hebron
9 Terra Nova

* Commercial Discovery Area

THE COVER

Petro-Canada has the best position of any company for development of the oil resources of the Jeanne d'Arc Basin off Newfoundland.

The cover illustrates a 3-D perspective of a seismic time-structure map of a Cretaceous-aged zone within the central Jeanne d'Arc Basin, viewed from the northeast. Dots indicate significant discoveries in which Petro-Canada participated. Other discoveries lie beyond the borders of this map.

Inset photo: 1988 production test at one of Petro-Canada's Terra Nova discovery wells.

CONTENTS

Highlights

FINANCIAL	1990	1989
Net earnings (millions of dollars)	181	20
Cash flow from operations (millions of dollars)	621	452
Expenditures on property, plant and equipment and exploration (millions of dollars)	643	568
Cash flow return on capital employed (per cent)	13.6	10.4
Return on capital employed (per cent)	6.0	2.7
Return on equity (per cent)	7.2	0.8
Average capital employed (millions of dollars)	5 812	5 566
Shareholder's equity (millions of dollars)	2 671	2 377

OPERATING	1990	1989
Crude oil and field natural gas liquids production, net before royalties (thousands of barrels per day)	94	100
(thousands of cubic metres per day)	15.0	15.9
Natural gas production, net before royalties (millions of cubic feet per day)	498	573
(millions of cubic metres per day)	14.1	16.2
Proved reserves, net before royalties (millions of oil equivalent barrels)	1 040	1 106
(millions of oil equivalent cubic metres)	165	176
Crude oil processed (thousands of cubic metres per day)	43.6	46.5
(thousands of barrels per day)	274	292
Petroleum product sales (thousands of cubic metres per day)	42.7	44.4
(thousands of barrels per day)	269	279

CONVERSION FACTORS

To conform with common usage, imperial units of measurement are used in this report to describe exploration and production while metric units are used for refining and marketing. Dollars are Canadian unless otherwise stated.

1 barrel	=	0.159 cubic metre	1 cubic metre	=	6.29 barrels
1 cubic foot (natural gas)	=	0.028 cubic metre	1 cubic metre (natural gas)	=	35.31 cubic feet
1 imperial gallon	=	4.55 litres	1 litre	=	0.22 imperial gallon
1 acre	=	0.405 hectare	1 hectare	=	2.47 acres
1 ton (long)	=	1.016 tonnes	1 tonne	=	0.984 ton (long)
1 mile	=	1.609 kilometres	1 kilometre	=	0.62 mile
1 barrel of oil	=	5 803 cubic feet of natural gas (energy equivalent)	1 cubic metre of oil	=	1 034 cubic metres of natural gas (energy equivalent)

Petro-Canada's financial results for 1990 show a marked improvement over the previous year. Net earnings increased $161 million to $181 million. Cash flow of $621 million was up 37 per cent. External events, notably periods of high crude oil prices, certainly contributed to this result. But Petro-Canada also gained clear benefits from the change programs described in the 1989 Annual Report. These results are encouraging, though there is still much work to do. Return on capital employed rose to 6.0 per cent – an improvement, but not yet satisfactory. Implementing our strategies for change is a major undertaking and takes time, but we are confident we are on the right road, striking at the fundamentals, particularly in managing our cost structure.

Crude oil prices continued to drive the external business environment in 1990. Prices exhibited extreme volatility, falling early in the year, rising dramatically following the invasion of Kuwait, then declining toward year end. The periods of high prices increased revenue from our oil production, though natural gas prices remained low. However, high crude prices increased the working capital required in the downstream business.

While prices rose and fell in response to events in the Gulf, the fundamentals of world supply and demand changed little. Petro-Canada has not altered its business plans. We remain determined to structure our businesses so they are sound even in times of low oil prices.

Resources division earnings for 1990 were $203 million, up 128 per cent from 1989. Production was down, largely due to the continuing depletion of mature fields and the sale of less profitable producing properties.

Binding agreements to proceed with the Hibernia offshore oil project gave us particular satisfaction in 1990. In 15 years of operations, Petro-Canada has gained a leading position on the East Coast. It shares in every significant development prospect and operates Terra Nova, which is poised to be the next major Canadian offshore oil field to move to production. Our investments have been substantial, but returns have remained beyond the horizon. In 1990, that changed. The start of construction on Hibernia is a vindication of our faith in the potential of the East Coast. It is also symbolic of Petro-Canada's future. With an unrivalled position, Petro-Canada is certain to be at the centre of ongoing East Coast development.

An important 1990 exploration success came at Klua in British Columbia. Klua reflects the way our new organization empowers our people to seek success. A team of explorationists, engineers and technical specialists quickly followed up on the initial discovery well to lock up the play and launch development of the field. Production and cash flow from Klua is expected by the end of 1991.

The Products division achieved earnings of $126 million in 1990, up 21 per cent from 1989. Our ability to recover higher crude costs and the benefits we have realized from the strategies initiated in 1989 contributed to this success. However, we anticipate lower earnings in early 1991. Our refined product margins will narrow because of the high crude costs in year-end inventories.

Volumes declined, due partly to the economic downturn but also in part to the divestment of some of the lowest-margin business through continued rationalization of the marketing network.

The most significant event of 1990 for Petro-Canada was the announcement February 20 that the Government of Canada would move to permit direct public investment in the Company.

The Petro-Canada Public Participation Act was introduced in the House of Commons on October 1 and received Royal Assent on February 1, 1991. Petro-Canada will proceed, when market conditions are appropriate, with an initial public offering. The Government has stated it will, over time, sell all its shares in Petro-Canada. In the meantime, it will manage its shares as an investment and will not intervene in the management or direction of the Company.

Petro-Canada's transition from Crown corporation to the private sector marks completion of its evolution into a fully commercial company, competing in the oil and gas industry on the same basis as other companies.

I firmly believe privatization is the key to the ongoing success of Petro-Canada as a Canadian leader in the petroleum industry. Petro-Canada has an excellent portfolio of assets, with balanced strength and strong prospects for adding value. Recently, it has been starved of capital, and that has limited its ability to develop those assets. Now, access to equity markets will enable Petro-Canada to capitalize more fully on the many opportunities available to it.

BILL HOPPER, CHAIRMAN
AND CHIEF EXECUTIVE OFFICER

"I FIRMLY BELIEVE PRIVATIZATION IS THE KEY TO THE ONGOING SUCCESS OF PETRO-CANADA AS A CANADIAN LEADER IN THE PETROLEUM INDUSTRY"

ACT OF PARLIAMENT WILL LEAD TO INITIAL PUBLIC OFFERING

A strategic review of the downstream business was completed early in 1991. It confirmed the key strategies and customer focus of the Products division, and suggested specific actions to improve profitability. These recommendations will be pursued during 1991.

Improving Petro-Canada's financial strength remains our principal objective. In 1990, the Company saw the benefit of the staff and cost reductions implemented in late 1989. Overall, costs were $167 million lower than they would have been in the absence of these efficiency programs. However, total debt rose, in the absence of access to equity capital, to cover investment needs. Debt to debt plus equity increased slightly during the year to 45.6 per cent. The equity infusion from an initial public offering will be applied to reduce debt, so improvement in this measure can be expected. We recognize appropriate steps must be taken to enable Petro-Canada to establish and maintain a sound credit rating.

Rebalancing the asset portfolio continued to be a high priority. Sales of underperforming assets yielded $256 million in 1990, while $95 million was invested in purchases of upstream property offering strong potential for added value. Petro-Canada also completed the acquisition of the propane business of Inter-City Gas Corporation. Additional investments were made to build, through a joint venture, a plant to produce MTBE, an environmentally preferred gasoline octane enhancer. The propane and MTBE investments secure a strong position for the Company in two areas of opportunity arising from today's environmental concerns.

Two members of our Executive Council left Petro-Canada during 1990. I would like to thank Ed Lakusta and Barry Stewart for their contributions during their years with us. Since the Petro-Canada Public Participation Act provides for the appointment of a new Board of Directors, I would like to take this opportunity to express my sincere appreciation to all the directors who served in 1990 for their valued contributions.

I also want to thank the employees of Petro-Canada for the significant strides they have made in revitalizing the Company and setting it firmly on a course for success. The changes in Petro-Canada's culture and working style over the past few years are bearing fruit in a new entrepreneurial spirit throughout the organization. Some of the best ideas at Petro-Canada are today coming from front-line employees. This spirit gives me great confidence as the Company moves into a new era.

The support of Canadians has been a great source of strength in Petro-Canada's first 15 years. I am proud of the place we have earned as ''Canada's oil company''. The move into the private sector can only strengthen that position, by increasing our ability to develop energy resources for Canadians and to meet the needs of customers. Our Canadian identity is our competitive edge, and we intend to fully maintain our commitment to Canadians in the years ahead.

W.H. Hopper
Chairman
and Chief Executive Officer

March 25, 1991

Petro-Canada: Capitalizing on its Assets

A leader in the Canadian petroleum industry, Petro-Canada has a portfolio of assets that is well balanced to provide both current returns and significant growth opportunities. It is strong in both "upstream" exploration and production and "downstream" refining and marketing activities. Petro-Canada has a sound base of revenue-generating producing properties and marketing operations, and prospects for near-term growth. This base is complemented by a range of medium- and longer-term development opportunities on the Canadian frontiers and overseas.

THE FOLLOWING PAGES REVIEW PETRO-CANADA'S ASSETS AND OPERATIONS BY BUSINESS AREA. ALL DATA ARE AS OF DECEMBER 31, 1990.

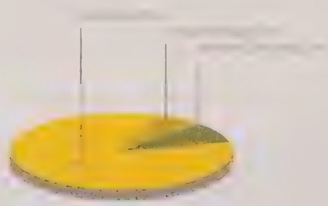
Crude Oil and Natural Gas Liquids

- ranks third among Canada's crude oil and natural gas liquids (NGL) producers
- average 1990 production was 94 300 barrels per day
- provides about 5% of total Canadian oil production

Conventional Oil and Field NGLs

- proved reserves amount to 275 million barrels or 12 years' production at current rates
- has added more than 100 million barrels of oil to Canada's reserves by its exploration efforts in Western Canada
- discovered the largest new Western Canada oil field of the 1980s – Valhalla, in Alberta
- 1990 production averaged 64 200 barrels per day
- contributed 49% of Resources division operating margins

SOURCES OF CRUDE OIL PRODUCTION



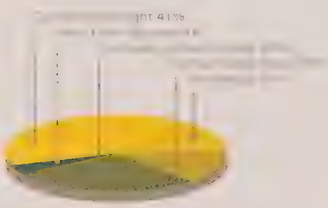
Oil Sands

- proved reserves amount to 243 million barrels
- 1990 production amounted to 30 100 barrels per day
- larger leaseholdings than any other company in mineable oil sands
- third largest leaseholder of in situ oil sands
- 17% interest in Syncrude, the world's largest oil sands mining plant
- 50% interest in the Wolf Lake in situ oil sands plant
- 15% interest in the proposed OSLO oil sands mining project
- oil sands contributed 15% of Resources division operating margins

CONVENTIONAL OIL PRODUCTION IN WESTERN CANADA

MINING OIL SANDS AT SYNCRUDE NEAR FORT MCMURRAY, ALBERTA

CRUDE OIL PRODUCTION MIX



Petro-Canada: Canadian Operations

Natural Gas and Sulphur

- ranks fifth in Canadian natural gas production
- provides about 5% of Canadian natural gas production
- 1990 production was 498 million cubic feet per day
- the leading gas producer in British Columbia
- 1990 sales were 571 million cubic feet per day, including brokered third-party gas
- about 20% of natural gas is sold directly to end users, 62% to shippers and 18% to Petro-Canada facilities
- proved reserves amount to 3 trillion cubic feet, or 17 years' production at current rates
- fourth largest sulphur producer in Canada
- sulphur production of 1 060 tons per day is mostly exported
- sulphur is produced as a by-product of natural gas processing, refining and bitumen upgrading
- natural gas and sulphur contributed 24% of Resources division operating margins

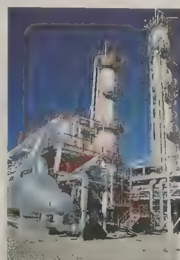
SOURCES OF GAS PRODUCTION

LOADING RAILCARS WITH LIQUID SULPHUR AT WILDCAT HILLS

STRADDLE PLANT PRODUCTION MIX

Straddle Plant Natural Gas Liquids

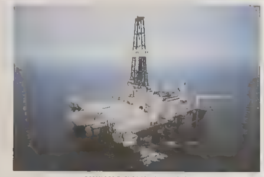
- second largest producer of straddle plant NGLs in Canada
- 1990 straddle plant output was 42 400 barrels per day
- operates and owns 92% of a large straddle plant at Empress, Alberta, extracting liquids from the gas stream on the main trunk line to Eastern Canada
- all Empress ethane production is sold for ethylene manufacture on a cost-of-service basis
- owns 50% of a straddle plant at Taylor, British Columbia
- 100% ownership in the Petroleum Transmission Company pipeline, which transports propane and butane from Empress, Alberta, to Fort Whyte, Manitoba, supplying points in between
- owns 10% of the Cochin pipeline, which carries natural gas liquids from Alberta to the U.S. Midwest and Windsor, Ontario
- contributed 12% of Resources division operating margins



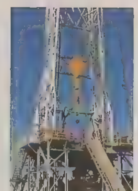
NATURAL GAS LIQUIDS ARE EXTRACTED AT THE EMPRESS STRADDLE PLANT

Frontier Canada

- leading player in Canada's East Coast offshore
- largest land position of any company in the Canadian offshore and Arctic frontiers
- one of the largest holders of potential reserves with 720 million barrels of oil and 7.3 trillion cubic feet of gas in the frontier regions
- interests in every major East Coast discovery, including oil finds at Hibernia (25%) and Terra Nova (44%)
- participating in the development of Hibernia
- operator of Terra Nova, which is moving towards development
- participant in several other offshore and Arctic oil and gas fields with potential for future development



OFFSHORE EXPLORATION HAS IDENTIFIED OIL FIELDS THAT CAN NOW MOVE TO PRODUCTION



ADA DRILLING RIG

International

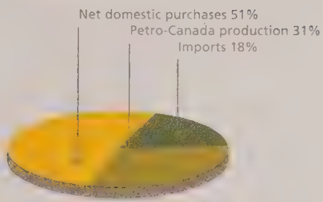
- international exploration undertaken to balance and diversify exploration portfolio
- seeking large low-cost oil reserves to offset increasing costs of domestic production
- promising international acreage portfolio now in the early stages of exploration
- exploration programs in Yemen, Myanmar, Vietnam, Pakistan, Papua New Guinea, Malaysia, Colombia and Ecuador
- only Petro-Canada has significant international activity among the major integrated Canadian companies

EDMONTON REFINERY

Refining

- four refinery complexes, at Montreal, Edmonton, Port Moody, B.C., and Lake Ontario (Oakville and Mississauga, Ont.); a small refinery at Taylor, B.C., will close in 1991
- has more than 18% of Canadian refining capacity
- manufactures full range of petroleum products, from gasolines to petrochemical feedstock
- 1990 production exceeded 43.6 million litres per day
- includes production of 640 000 litres of lubricants and 953 cubic metres of petrochemical feedstock daily
- makes Canada's highest quality lubricants, including specialized industrial products
- refining network has an above-average ability to process synthetic and heavy crudes

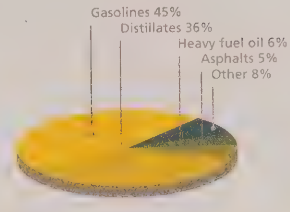
SOURCES OF CRUDE OIL FOR REFINERIES



Marketing

- every day, on average, about 600 000 customers buy gasoline and other petroleum products from Petro-Canada
- strong second in gasoline market share in each region and nationally
- third largest retail network in Canada, with 3 205 outlets nationwide
- sold 42.7 million litres of refined products per day in 1990
- car washes, Certigard car care franchises and convenience stores make fuller use of assets and add to marketing revenues and customer service
- 60% of total sales volume is to wholesale, commercial, industrial and heating customers

REFINED PRODUCT SALES MIX



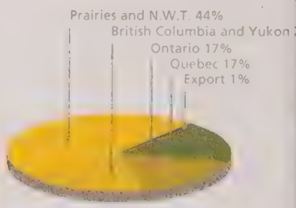
MORE THAN 600 000 CUSTOMERS A DAY BUY PRODUCTS FROM PETRO-CANADA

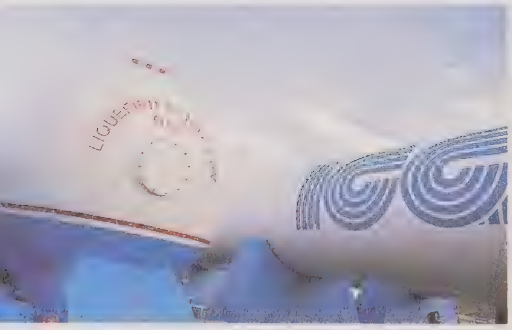
PETRO-CANADA CAR WASH

Supply and Distribution

- buys crude oil from Western Canada and other countries
- has interests in nine crude oil and refined products pipelines
- has 35% interest in the Alberta Products pipeline, which carries refined products from Edmonton to Calgary
- has 33% interest in the Trans-Northern pipeline, which distributes refined products to major markets in Ontario and Quebec
- has 24% interest in the Portland-Montreal pipeline, which transports crude oil from Portland, Maine, to Montreal
- 23 distribution terminals across Canada, seven of which are fully automated
- 336 wholesale outlets across the country

PROPANE SALES DISTRIBUTION





ICG PROPANE GIVES PETRO-CANADA
A STRONG POSITION IN ALTERNATE FUELS

ICG Propane Inc.

- Petro-Canada's wholly owned subsidiary, headquartered in Winnipeg
- second largest retail marketer of propane in Canada, with about one third of the market
- sold 1 245 million litres of propane in 1990
- markets through 137 company-operated branches and 1 117 independent retailers
- auto propane makes up about 35% of total sales; other sales go to industrial, commercial, residential, farm and remote location markets

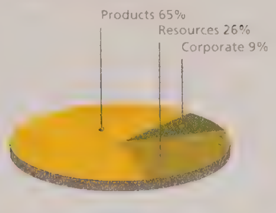
MTBE Plant

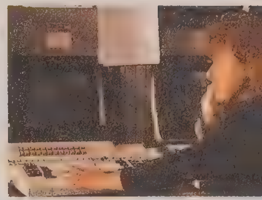
- 50% interest in world-scale facility under construction to manufacture methyl tertiary butyl ether (MTBE), an environmentally preferred gasoline additive
- start-up expected in the first quarter of 1992
- plant production is targeted at 2 000 cubic metres of MTBE per day
- facility is located near Edmonton, close to sources of the two major raw materials, butane and methanol
- MTBE has growing export potential, particularly in those areas in the United States which have strict environmental controls
- to operate the plant, the joint venture has established Alberta Envirofuels Inc

Employees

- 6 353 employees at year-end 1990 in the Petro-Canada "core"
- 3 453 employees in subsidiaries
- 91% of "core" employees are in the operating divisions
- young, highly skilled workforce; average age 37.8

EMPLOYEES
BY BUSINESS SEGMENT
(excluding subsidiaries)





Research and Development

- research centre at Sheridan Park in Mississauga, Ontario, develops improved products
- upstream research, emphasizing the enhancement of exploration and production technology, is conducted in Calgary
- new technology for oil sands development is tested in field pilot operations
- joint research programs and technology development are carried out with third parties
- in 1990, Petro-Canada spent $25 million on research and development activities

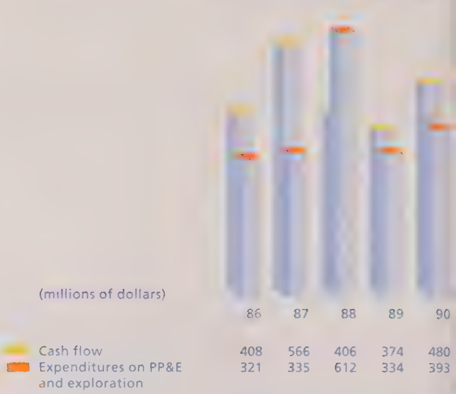
SHERIDAN PARK RESEARCH CENTRE
SPEARHEADS NEW PRODUCT DEVELOPMENT

PETRO-CANADA CENTRE, THE COMPANY'S
HEAD OFFICE IN CALGARY

Investments

- 37% interest in Westcoast Energy Inc.
  - key player in natural gas transmission, oil and gas industries
  - market value of investment at year end was $453 million
  - Petro-Canada's share of 1990 earnings $26 million, dividends $16 million
- 50% ownership in Petro-Canada Centre
  - major office complex in Calgary
- 53% ownership of Panarctic Oils Limited
  - responsible for large oil and gas discoveries in the Arctic Islands, which are available for future development

CASH FLOW AND EXPENDITURES ON PROPERTY, PLANT AND EQUIPMENT AND EXPLORATION



The Resources division continues to reinvest a high proportion of cash flow for future growth.

The Resources division's financial performance improved significantly, with earnings of $203 million, up $114 million over 1989. Cash flow of $480 million jumped 28 per cent over 1989. Efficiency gains, cost reductions and rapid response to opportunities, together with higher oil prices in the second half of 1990, contributed to these significantly improved financial results.

Total production of crude oil and field natural gas liquids decreased 6 per cent in 1990 to 94 300 barrels per day. Gains from record production at Syncrude were more than offset by natural decline and sales of conventional producing properties. Natural gas production declined 13 per cent to 498 million cubic feet per day, as a result of price-related export restrictions on British Columbia production, and final delivery in 1989 of take or pay volumes under a major pipeline contract. Lower deliverability and reduced shipper volumes were also factors.

The Resources division followed through in 1990 with implementation of the value-oriented strategies identified during the previous year. Activities in Western Canada are being refocused by asset restructuring and the innovative work of a revitalized organization. Future value creation and the replacement of conventional hydrocarbons are being pursued through a strategic emphasis on natural gas in Western Canada and through frontier and oil sands projects and high-potential international opportunities.

Asset restructuring continues

The Resources division continued the two-pronged asset restructuring strategy initiated in 1989. A divestment program sought to capture value through the sale of non-strategic and underproducing assets. At the same time, selective acquisitions increased the Company's ownership position in key assets and gained profitable reserves and production.

Petro-Canada concluded three major purchases of developed gas reserves in Alberta, amounting to 100 billion cubic feet, for a total of $46 million. These provided increased working interests in the Petro-Canada operated Wildcat Hills field, the Gilby field and a smaller Kaybob property which is now 100 per cent owned. In July, the Company acquired the Golden Lake conventional heavy oil field for $33 million. Golden Lake, east of Lloydminster, Saskatchewan, provides 16 million barrels of primary proved reserves and 2 300 barrels per day of production. An additional 27 million barrels of proved reserves were booked based on a viable waterflood program.

FINANCIAL (stated in millions of dollars)	**1990**	1989
Earnings	**203**	89
Cash flow from operations	**480**	374
Proceeds from sale of assets	**211**	97
Expenditures on property, plant and equipment and exploration	**393**	334

OPERATING	**1990**	1989
Crude oil and field natural gas liquids production, net before royalties (thousands of barrels per day)		
Conventional crude oil and field natural gas liquids	**64**	72
Synthetic and bitumen	**30**	28
Total	**94**	100
Natural gas production, net before royalties (millions of cubic feet per day)	**498**	573
Proved reserves of crude oil and natural gas liquids, net before royalties (millions of barrels)	**519**	528
Proved reserves of natural gas, net before royalties (billions of cubic feet)	**3 025**	3 351

B.C. VALUE CENTRE TECHNICAL SERVICES SPECIALIST TIM TUCKER AND SUPERVISOR JOHN TURCHANSKY CHECK TESTING EQUIPMENT

GAS FLARE SIGNALS SUCCESSFUL PRODUCTION TEST AT STEP-OUT WELL TO KLUA DISCOVERY IN NORTHEASTERN BRITISH COLUMBIA

MAJOR DISCOVERY MOVES QUICKLY TOWARD PRODUCTION

TECHNICAL SPECIALIST JACK WEARMOUTH AND PRODUCTION OPERATORS CHERYL SLADE AND DAISY HARPE RUN NEW WATER FILTRATION PLANT AT VALHALLA OIL FIELD IN ALBERTA

TO MAINTAIN RESERVOIR PRODUCTIVITY AND LIMIT ENVIRONMENTAL IMPACT, A CERAMIC FILTER SYSTEM DRAWN FROM THE BEVERAGE INDUSTRY PURIFIES PRODUCED WATER FOR REINJECTION AT VALHALLA

EMPLOYEES' IDEAS AND INNOVATIVE TECHNOLOGIES IMPROVE RETURNS

DAILY PRODUCTION

(thousands of oil equivalent barrels)

	86	87	88	89	90
Daily production (net before royalties)	164	178	189	199	180

Production was lower in1990 due to natural decline in conventional fields and the effects of asset sales.

AVERAGE LIFTING COST

(dollars per barrel of oil equivalent)

	86	87	88	89	90
Lifting cost	4.51	3.88	4.10	4.04	4.28

Cost reductions have kept lifting costs lower than in 1986 despite inflation.

Proceeds from Resources division asset sales during 1990 totalled $211 million. Divestments included interests in 48 Western Canada producing fields and the Company's interests in the Casablanca oil field in Spain and the Sedco 710 drilling rig.

Each of the Company's 450 producing fields in Western Canada has been categorized according to its potential to add value. Management expects to reduce the total to around 200 by the end of 1993. The Company is also considering the sale of a portion of its interest in Syncrude. Over 1989 and 1990, $308 million has been realized from asset sales.

New organization yields results

The new organization based on value centres, introduced in 1989, has invigorated the Resources division. Each value centre has given considerable authority to asset teams working to add value to particular groups of properties. Vesting responsibility in teams of front-line specialists provides a framework for fast and effective decision-making and implementation.

The rapid follow-up to the Klua gas discovery was led by the Fort Nelson asset team, one of five in the British Columbia Value Centre. An asset team in the Conventional Heavy Oil Value Centre has managed the Golden Lake field aggressively since its acquisition in September, increasing production by 10 per cent. And a Northern Alberta Value Centre team identified a drilling location at Shekilie, purchased land, drilled a discovery well and brought it on production, all in seven months.

While value centres concentrate on existing assets, stratigraphic exploration groups look for new play concepts. Experts are grouped according to key geological strata in the Western Sedimentary Basin. They are set up for breakthrough thinking to identify opportunities for significant reserve and production additions. The three stratigraphic exploration groups completed a fundamental reassessment of basin formation and sourcing attributes and proceeded to regional analyses of the basin. Advanced computer technology enabled them to analyse much broader bases of data than was previously possible, opening up many new possibilities.

Building the natural gas business

The division's emphasis on natural gas in its Western Canada exploration program resulted in success in 1990. In February, testing confirmed a major gas discovery at Klua, 40 kilometres southeast of Fort Nelson, British Columbia.

Petro-Canada quickly acquired a 100 per cent working interest in 300 square kilometres in the area. It followed with extensive seismic, two more successful wells and construction of an all-weather road to allow rapid development. The three wells showed net gas pays up to 80 metres thick. Test results enabled Petro-Canada to add 69 billion cubic feet of gas from these three pools to its proved reserves.

The asset team has identified up to 25 drillable anomalies on Petro-Canada lands at Klua. Further reserve additions are expected in 1991 as a result of major seismic programs and another four exploration wells. The Company plans to market Klua gas in late 1991, after Westcoast Energy Inc. completes a pipeline to its Fort Nelson gas processing plant.

Exploration and development drilling, well tie-ins and additional compression facilities in British Columbia and Alberta

added 33 billion cubic feet of proved reserves. Altogether, through exploration and development, 102 billion cubic feet of natural gas were added in 1990 to Petro-Canada's proved reserves.

Gas marketing initiatives continued to emphasize direct sales to industrial consumers and local distribution companies. Five new direct sales contracts were added during the year and a letter of intent was signed to supply gas to consumers on Vancouver Island once pipeline construction is finished.

Petro-Canada also continued efforts to expand its access to pipeline transportation in order to sell gas into California and the U.S. Northeast. In 1990, the Company signed an agreement with Kern River Gas Transmission Company to transport 60 million cubic feet per day to southern California. When the Kern River pipeline goes into service in the first quarter of 1992, Petro-Canada will transport gas through Kern River and existing arrangements on the Northwest Pipeline system, providing an important new export opportunity for the Company's British Columbia production. Letters of intent have been signed with California customers for 20 million cubic feet per day.

To improve returns from the field natural gas liquids business, Petro-Canada took an overall 11 per cent equity interest in a de-ethanization and fractionation facility at Fort Saskatchewan, Alberta. Petro-Canada's investment over 1990 to 1993 will be $18 million. The facility, expected to begin operations in 1993, will process most of Petro-Canada's field liquids at costs well below those currently incurred at third-party facilities.

Adding value from Western Canada conventional oil assets

While exploration in Western Canada is primarily targeted to natural gas, the Company continues to add oil reserves from a mix of exploration, development and enhanced recovery.

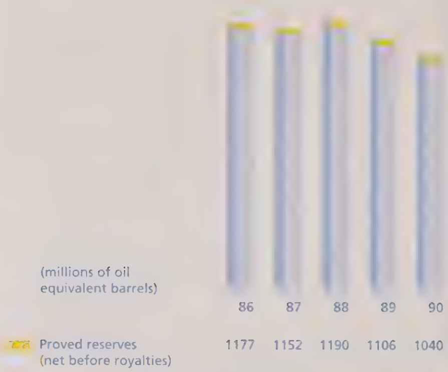
During the year, 33 million barrels of oil and natural gas liquids were booked as proved reserves. In addition to the reserves from the Golden Lake waterflood booking, 3 million barrels were added as a result of a miscible flood program. A further 3 million barrels were added from exploration and development activities.

The Resources division has significantly reduced costs and optimized production in recent years. Continuous improvements are being sought by mobilizing the ideas of all staff to improve business performance. Individually, the increments are small, but, added together, such ideas yield considerable gains as responsibility for improvement becomes entrenched in the roles of front-line employees. The division began to adopt in 1990 a total quality management approach for improving business performance.

Frontier moving to development

Fifteen years of exploration investments have built for Petro-Canada a strong portfolio of offshore discoveries, with potential reserves totalling 720 million barrels of oil and 7.3 trillion cubic feet of gas. However, until 1990, there had been no development that could lead to a return on investment. In September, following years of complex negotiations and 11 years after Petro-Canada shared in the initial Hibernia oil discovery, the Company and its co-owners signed binding agreements with the governments of Canada and Newfoundland and Labrador

PROVED RESERVES



Petro-Canada reserves have been consistently over 1 billion barrels of oil equivalent

KEY NEGOTIATORS: SENIOR COUNSEL GARTH PARKER, SENIOR SUPERVISOR STEVE MA OF FRONTIER BUSINESS DEVELOPMENT AND CHIEF ECONOMIST JOHN RIMELL

HARD-WON AGREEMENTS AMONG CONSORTIUM MEMBERS AND GOVERNMENTS ENABLED CONSTRUCTION TO BEGIN FOR THE HIBERNIA OFFSHORE OIL DEVELOPMENT

TEAMWORK IN TOUGH NEGOTIATIONS BROUGHT HIBERNIA BREAKTHROUGH

to launch construction of the Hibernia project. By year end, crews were developing the site in Newfoundland where the concrete base for the production system will be built and the processing facilities assembled.

The participants have set up the Hibernia Management and Development Corporation to run the project. As a 25 per cent participant, Petro-Canada's share of pre-production expenditures will be approximately $1.1 billion after government grants. Production is scheduled to begin in 1996. When booked, Hibernia will add at least 131 million barrels to Petro-Canada's proved oil reserves. The Company's share of production will reach a maximum of 27 500 barrels per day.

Terra Nova, also off Newfoundland, will likely be the next major offshore oil field to proceed to development. Petro-Canada discovered, operates and has a 44 per cent interest in the project. The Company's share of potential reserves is at least 132 million barrels. During 1990, Petro-Canada and its co-owners completed engineering and reservoir studies leading toward selection of a floating production system. Terra Nova oil could be on stream in the late 1990s, with maximum production for the Company reaching 44 000 barrels per day.

Together, Hibernia and Terra Nova will more than double Petro-Canada's daily light crude production. Development of these two fields will likely spur delineation and development of other discoveries, such as Ben Nevis, Hebron, Whiterose and West Ben Nevis. Petro-Canada has working interests in all these fields.

Steady participation in the oil sands

Petro-Canada's 17 per cent interest in the Syncrude plant provided the Company with 26 700 barrels of synthetic crude per day in 1990. Syncrude provides close to one third of Petro-Canada's crude oil production.

A consortium in which Petro-Canada has a 15 per cent interest continued preliminary engineering for the OSLO oil sands mining project near Fort McMurray. The participants expect to be ready in late 1991 to make a decision on whether to proceed with development.

Petro-Canada participated with other companies in further work on a new technology involving dredge mining, low-temperature bitumen extraction and ore transportation. A small demonstration plant is being considered to test commercial applications of the technology.

In situ activity during 1990 included record bitumen production, averaging 3 400 barrels per day, from the 50 per cent owned Wolf Lake facility. In May, PCEJ Hangingstone was brought on stream as a 13-well, cyclic steam stimulation pilot. Petro-Canada is operator of, and has a 25 per cent interest in, this in situ bitumen joint venture.

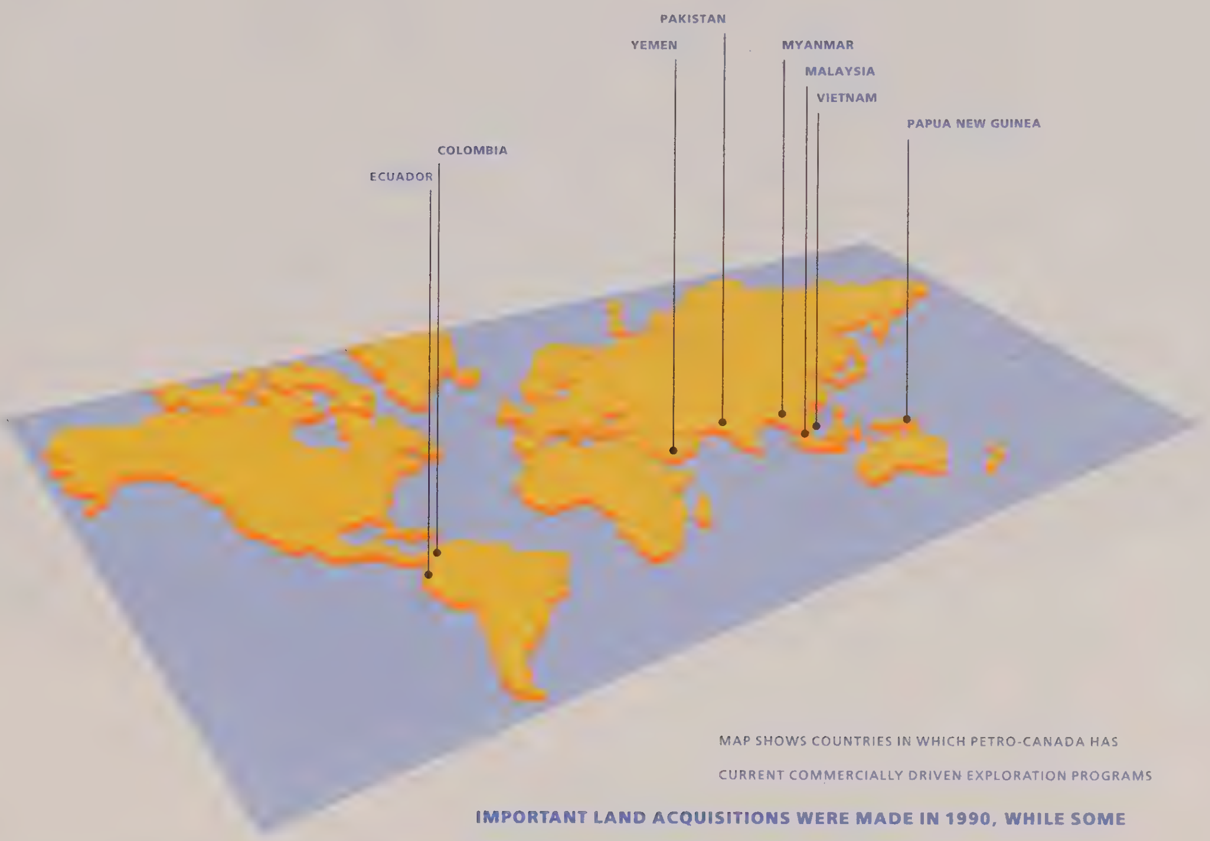
Active international player

The Company continued to expand its program of international exploration in 1990. Petro-Canada is focusing on exploration opportunities in under-explored areas outside Canada where there are prospects of finding large oil reserves with low production costs.

Between November 1989 and May 1990, Petro-Canada acquired exploration rights in Myanmar, Vietnam and Yemen. In Myanmar, Petro-Canada operates one onshore block with a 70 per cent interest

and participates in another with a 30 per cent interest. More than 1 000 kilometres of seismic were shot by year end and drilling is planned for both blocks in 1991. In Vietnam, Petro-Canada has operatorship and a 50 per cent interest in three offshore blocks south of the Mekong Delta. A 4 500 kilometre seismic program was finished in 1990 and an exploration well is planned in 1991. Seismic data was being gathered at year end in Yemen, where Petro-Canada is operator and 35 per cent participant in onshore acreage near the Oman border.

In the middle Magdalena Valley of Colombia, Petro-Canada participated with a 50 per cent interest in two successful delineation wells in the Tisquirama block to follow up a 1989 oil discovery. Further development is planned for 1991.



MAP SHOWS COUNTRIES IN WHICH PETRO-CANADA HAS CURRENT COMMERCIALLY DRIVEN EXPLORATION PROGRAMS

IMPORTANT LAND ACQUISITIONS WERE MADE IN 1990, WHILE SOME PROJECTS MOVED INTO THE DRILLING PHASE

INTERNATIONAL THRUST SEEKS LARGE, LOW-COST OIL RESERVES

OPERATING EARNINGS

(cents per litre)

	86	87	[illegible]	[illegible]	[illegible]
Operating earnings (before depreciation and taxes)	2.3	2.0	[illegible]	[illegible]	[illegible]

Operating earnings, a key measure of operating efficiency, rose in 1990 to 2.4 cents per litre

EXPENDITURES ON PROPERTY, PLANT AND EQUIPMENT

(millions of dollars)

	86	87	88	89	90
Refining	61	49	82	115	89
Marketing	57	73	79	94	73
Total	118	122	161	209	162*

*excludes $59 million expenditures on MTBE plant

Petro-Canada continued steady investment in the downstream, following peak spending on lead phase-out in 1989.

The Products division benefited in 1990 from improved margins and the efficiency measures initiated in 1989. Earnings in 1990 were $126 million, up 21 per cent from a year earlier. Cash flow increased 9 per cent to $258 million, reflecting a jump in operating earnings from 2.1 to 2.4 cents per litre. This increase resulted primarily from improved margins. Expense savings in 1990 were offset by higher refinery operating expenses, largely due to maintenance shutdowns at most of the Company's refineries and a refinery fire.

Capital expenditures on property, plant and equipment were $162 million, plus $59 million invested in the MTBE plant. Total expenditures were up 6 per cent from 1989. Proceeds from the sale of refining and marketing assets amounted to $36 million.

Daily sales of petroleum products in 1990 were 42 700 cubic metres per day, a decrease of 3.8 per cent from the previous year. Lower demand for petroleum products, resulting from the recession in the Canadian economy, and some loss of sales, due to the closing of uneconomic facilities, caused much of the decline.

Petro-Canada's refineries processed 43 600 cubic metres per day of crude oil in 1990. With refinery capacity totalling 54 200 cubic metres per day, average refinery utilization was 80 per cent. This figure was down from 1989 due to lower sales and refinery shutdowns.

Although pleased with the substantial progress made in 1990, management is looking for an even greater contribution to Petro-Canada's financial success from the Products division in future years. The division's strategic review, finished in January 1991, identified opportunities for improvement and specific action plans. The division will intensify efforts to reduce costs and infuse a customer focus into every aspect of operations. In addition, each business segment will be segregated to ensure all parts of the organization generate maximum value.

Refining more efficiently

Petro-Canada took further measures in 1990 to increase the efficiency of its refining network.

Capital expenditures continued to focus on improving reliability, environmental performance and safety. In 1990, construction was completed on a $20 million in-line gasoline blending facility at the Montreal refinery. The Company also began work on a $13 million reinstrumentation and control room renovation project. At the Oakville plant of the Lake Ontario refinery, a new $10 million water treatment facility was commissioned and an $18 million automation program completed.

FINANCIAL (stated in millions of dollars)	**1990**	1989
Earnings	**126**	104
Cash flow from operations	**258**	237
Proceeds from sale of assets	**36**	21
Expenditures on property, plant and equipment	**221**	209

OPERATING	**1990**	1989
Petroleum product sales (thousands of cubic metres per day)	**42.7**	44.4
Retail outlets at year end	**3 205**	3 295
Refinery crude capacity at year end (thousands of cubic metres per day)	**54.2**	54.2
Crude oil processed by Petro-Canada (thousands of cubic metres per day)	**43.6**	46.5
Average refinery utilization (per cent)	**80**	86

PROCESS TECHNICIAN JEAN-PIERRE TOURANGEAU, SEATED; AT REAR IS CARL GLENN, SENIOR PROJECT ENGINEER, PROCESS AUTOMATION

INVESTMENTS SUCH AS THIS AUTOMATED CONTROL ROOM AT MONTREAL WILL IMPROVE THE RELIABILITY AND SAFETY OF REFINERIES AND PERMIT EFFICIENCY GAINS

SELECTIVELY INVESTING IN REFINERY IMPROVEMENTS

NEPEAN, ONT., ASSOCIATE JIM COOLEY DISCUSSES LOCAL UNIT MANAGEMENT IDEAS WITH MARKETING REPRESENTATIVE LUKE RYAN

RETAILERS GAIN SKILLS TO IMPROVE BUSINESS AT THE LOCAL LEVEL WITH BUSINESS COUNSELLING FROM COMPANY PERSONNEL

INITIATIVE AIMS TO BOOST PROFITABLE GASOLINE SALES

AVERAGE REFINERY UTILIZATION

(per cent)	86	87	88	89	90
Utilization rate	74	76	77	86	80

Overall refinery utilization was down in 1990 due to lower sales and refinery maintenance shutdowns.

Consistent with its strategy of reducing refining costs, Petro-Canada announced in January 1991 plans to close the Taylor, British Columbia, refinery and sell certain of its assets for net proceeds of $13 million. Petro-Canada customers in the region will be served from the Edmonton and Port Moody refineries.

The Company plans to re-start, in mid 1991, the catalytic cracker at the Port Moody, British Columbia, refinery. This change will enable Petro-Canada to take full advantage of market demand. The Company will continue to optimize the operations of the Edmonton and Port Moody refineries by retaining the ability to send both crude oil and partially processed energy streams to Port Moody from Edmonton via the Trans Mountain pipeline.

An explosion and fire at the Edmonton refinery on May 24 led to the tragic deaths of two valued employees and substantial damage to the crude oil processing area. Production was restricted until repairs were completed in August. Product supply was maintained to all customers through other Petro-Canada refineries and arrangements with third parties.

Product development for the future

In 1990, Petro-Canada invested a total of $16 million on downstream research and development to anticipate the impact of future environmental legislation and develop improved products for customers.

The Sheridan Park research and development centre in Mississauga, Ontario, completed an expansion of its engine and vehicle test facilities. The performance of new fuels and lubricants can now be assessed under the most rigorous operating conditions.

Researchers continued to focus on the development of high-value specialty lubricants. Taking advantage of the Company's unique ''HT'' manufacturing process, these specialty products offer superior performance and benefits which cannot be matched by the competition. For example, ''Purity'' defoamer oil, an ultra-pure product developed to assist the pulp and paper industry in meeting stringent environmental targets, captured a dominant market position in Canada during 1990. Also in 1990, a new line of ''Vulcan'' greases was launched for use in the mining industry and other specialized markets.

The Company completed extensive trials of a premium-grade asphalt on major highways across Canada. In 1991, ''Premium'' asphalt will be launched commercially. The product will provide superior performance and extend pavement life under Canada's severe climatic conditions.

Improved effectiveness of retail marketing

To improve its focus on customers, Petro-Canada introduced a service-oriented operating system known as local unit management. Most retail outlets will adopt the system by 1992.

Local unit management aims to increase profitable gasoline sales by concentrating on customer satisfaction at the organization's front line. It provides retail associates with tools and skills to take a more entrepreneurial approach to business, while company representatives act as business counsellors. Individual, site-specific approaches emphasize attention to customer needs and local markets.

(thousands of cubic metres per day)

	86	87	88	89	90
Gasolines	20.3	20.3	19.4	20.1	19.4
Distillates	16.2	16.7	16.1	15.8	15.2
Other	7.9	8.6	8.3	8.5	8.1
Total	44.4	45.6	43.8	44.4	42.7

Petroleum product sales weakened in 1990 as a result of the recession and withdrawal from unprofitable markets.

The Company continues to improve the quality of its retail network. In 1990, $47 million of capital spending was directed to upgrading retail facilities and replacing underground tanks. To further improve asset utilization, Petro-Canada continued to divest unprofitable sites. By year end, there had been a net reduction of 90 outlets in the retail network.

Developing a more vibrant wholesale business

Entrepreneurship is crucial in the continuing implementation of the ''wholesale marketer'' program. Under this operating system, associates have greater responsibility for customer service aspects of their business, such as customer account management. Bulk plants are automated to enhance efficiency and competitiveness. By year end, the number of wholesale marketers had increased from 27 to 59. Rollout of the program is expected to be complete by the end of 1992.

Petro-Canada's working capital commitment is significantly reduced when a bulk plant is converted to a wholesale marketer. The marketer takes a greater financial stake in the business, including responsibility for accounts receivable. It is anticipated the program will reduce the Company's investment in working capital by as much as $40 million.

The wholesale network was also strengthened further as low-volume, low-margin bulk plants were closed or sold. Certain facilities were closed because their contribution to performance could not justify investments needed to meet legislated environmental standards. Additional consolidation is planned for future years to strengthen the financial viability and competitiveness of the network.

Cleaner and environmentally sound products

While new environmental regulations require significant investment in refineries and marketing facilities, Petro-Canada continued to find opportunity in the changes required by today's environmental concerns.

Petro-Canada is participating in a joint venture to build the first plant in Canada, and one of the largest in the world, to manufacture methyl tertiary butyl ether (MTBE). MTBE is a high-value oxygenated gasoline blending component used increasingly in reformulating gasolines to higher environmental standards. MTBE has cleaner burning qualities which reduce harmful emissions from automobile exhaust. MTBE can also replace the octane loss as lead is removed from the gasoline blend. Petro-Canada and Neste Oy, the Finnish state oil company, are currently 50 per cent co-owners of Alberta Envirofuels Inc., operator of the plant. Construction began in April 1990 at a site near Edmonton.

Total joint venture expenditures on the MTBE plant and facilities will be $390 million. Start-up is expected in the first quarter of 1992, with plant production reaching 2 000 cubic metres per day. The increasing use of cleaner-burning fuels in North America, Europe and Asia is expected to provide strong and growing market demand for MTBE. In the United States, the Clean Air Act of 1990 requires higher oxygenate content in gasolines sold in certain cities.

The new isomerization unit at the Edmonton refinery began operating in May, increasing unleaded gasoline capacity and enabling the final phase-out of lead in gasolines. The unit was finished on schedule and under budget, at a total cost of $59 million.

LETHBRIDGE, ALTA., DRIVER BRIAN NUMMI AND WHOLESALE ASSOCIATE MURRAY LAUDER WITH MARKETER REPRESENTATIVE RICH STADER

WHOLESALERS ARE TAKING MORE RESPONSIBILITY FOR CUSTOMER SERVICE AND BUSINESS SUCCESS WHILE REDUCING CORPORATE CAPITAL NEEDS

WHOLESALE MARKETER PROGRAM ENCOURAGES ENTREPRENEURIAL SKILLS

MTBE PLANT MANAGER GARETH LLOYD AND DAN SOROCHAN, DIRECTOR, MTBE BUSINESS, AT CONSTRUCTION SITE IN EDMONT

CONSTRUCTION BEGAN ON A PLANT TO PRODUCE MTBE, AN ENVIRONMENTALLY PREFERRED OCTANE ENHANCER FOR BLENDING INTO GASOLINE

ENVIRONMENTAL PRIORITIES CREATE BUSINESS OPPORTUNITIES

In 1990, Petro-Canada completed the acquisition of the propane business of Inter-City Gas Corporation for $235 million. The business is carried on through a wholly owned subsidiary, ICG Propane Inc.

Acquisition of the country's second largest propane marketer greatly expands Petro-Canada's participation in retail propane. The business has been consistently profitable. It has strengthened Petro-Canada's cash flow and enables the Company to market its propane production more efficiently, while gaining a position in the forefront of alternative fuels.

At year end, operations were conducted through 137 company-operated branches and 1 117 independent retailers. The network covers all of Canada's regions, with its highest share of market in Quebec, the Territories, British Columbia and the Prairies. An agreement signed in July enables ICG Propane to supply propane for sale through 220 Turbo service stations in Western Canada.

ICG Propane operates five service centres focused on auto propane conversions, 18 fleet refuelling facilities and a small research and development facility in Winnipeg.

About one third of ICG Propane's sales are in transportation, where growth is occurring due to propane's reputation as an economical and clean-burning fuel. Other sales are to a broad range of industrial, commercial, residential, farm and remote location markets.

Because it maintains a decentralized organization and business relationships that are different from Petro-Canada's, ICG Propane Inc. operates as a separate entity, with its head office in Winnipeg. Products continue to be marketed under the ICG brand and all dealings with Petro-Canada are on a commercial basis.

ICG Propane contributed $30 million to Petro-Canada's cash flow from operations in 1990. Compared to pre-acquisition results, this was a record. Management of operating expenses, attention to the customer and exceptional growth in auto propane in Western Canada were the main reasons for this performance. Propane sales amounted to 1.2 billion litres. Expenditures on property, plant and equipment were $16 million, including some re-identification expenditures arising from the integration into ICG Propane of Petro-Canada's existing farm and retail propane business.

Following the acquisition, ICG Propane's management undertook a strategic evaluation of customers' needs and expectations. Refocusing on the most important customer expectations permitted a significant reduction in operating costs, most of which will be realized in 1991.

FINANCIAL (stated in millions of dollars)	1990
Earnings	5
Cash flow from operations	30
Expenditures on property, plant and equipment	16

OPERATING	1990
Propane sales (millions of litres)	1 245

Petro-Canada recognizes that a strong reputation for corporate responsibility contributes significantly to its business and financial success. The Company benefits from the public's identification with Petro-Canada as "Canada's oil company". Through its actions, the Company must reinforce public support by demonstrating that a commitment to Canadians is an integral part of doing business.

Safeguarding the environment

- A comprehensive environmental policy defines high standards for corporate performance and makes environmental protection a personal responsibility of each employee.
- 1990 spending on environmental items totalled $68 million of capital expenditures and $82 million of expenses; 42 per cent was for Resources, 58 per cent for Products.
- About 70 staff specialists have an environmental, health or safety function; the senior environmental director reports directly to the Chief Operating Officer.
- An issues management system facilitates timely responses on environmental issues.
- Environmental information and procedures are regularly communicated to employees.
- The Company invested $96 million over three years to re-equip refineries and retail outlets for the elimination of lead from gasolines.
- 581 underground fuel storage tanks at service stations and other facilities were replaced or upgraded in 1990 to eliminate risk of leakage due to corrosion; this was year four of a nine-year $125 million program.
- Work continued on reducing emissions from gas processing facilities; gas plants at Wildcat Hills and Kaybob were expanded while reducing total emissions.
- Most new retail promotional signs were produced from recycled plastics and printed with non-toxic, biodegradable inks.
- Petro-Canada contributed $188 035 to the Scouts Canada tree planting program through a Canadian forests postage stamp promotion at retail outlets.
- Suppliers' environmental performance was a factor in awarding the 1990 paper supply contract.
- Rigorous procedures are in place to prevent environmental damage; emergency response plans are in place in case of an accident.
- Petro-Canada is a member of 28 local, regional and international oil spill response cooperatives, often taking a leading management and technical role.
- 17 safety audits were conducted under the International Loss Control Institute program during 1990; Port Moody refinery earned a five-star rating – ILCI's highest.
- Company facilities are inspected or audited regularly to identify and correct potential environmental problems.
- In international operations, Petro-Canada strives to incorporate its Canadian environmental standards in all program activities.
- Innovative technology developed for road construction in Northern Canada was applied in Ecuador to reduce the impact of road construction on tropical forests.

Supporting cultural and charitable activities

- $3.6 million was invested in 1990 to support local, regional and national charities.
- Funds were directed primarily to arts and culture, education, health and welfare.
- Petro-Canada supported a full range of arts organizations across Canada, from the Vancouver International Comedy Festival and the Sudbury Symphony to the Festival international de Lanaudière and Charlottetown's Confederation Centre of the Arts.

ASSISTANT OPERATOR DONNA SMITH

CLEANS CLARIFYING TANK DISTRIBUTOR

NEW WATER TREATMENT FACILITIES AT OAKVILLE PLANT WILL HELP IMPROVE QUALITY OF EFFLUENT DISCHARGED TO LAKE ONTARIO

INVESTING TO REDUCE ENVIRONMENTAL IMPACT

- Several scientific and technical university research chairs received support.
- 31 Native university students received Native Education Awards in 1990.
- The Company and its employees contributed about $860 000 to United Way campaigns across Canada.
- Television sponsorships supported the production of quality Canadian programs such as ''Road to Avonlea''.
- The Olympic Torch Legacy Fund keeps the spirit of the Olympic Torch Relay alive, funding scholarships in 1990 to 83 Canadian athletes and eight coaches.
- Petro-Canada contributed $696 600 to the Torch Fund in 1990 through retail promotions; since 1987, $5.5 million has been raised through the sale of 55 million Torch Relay glasses.

Working with communities

- Petro-Canada staff consult with communities wherever projects have potential environmental or socio-economic impacts.
- A large portion of a former refinery site was restored in Ville d'Anjou, near Montreal, and sold in 1990 for development as a golf course and industrial park.
- Petro-Canada dealers and associates sponsored 1 461 local baseball teams through the ''PlayBall'' program.
- The Company supported many community projects in areas of operations, from the Provost, Alberta, community centre to the Hull, Quebec, ''Velobus'' safe cyclist path.
- In Calgary, it co-sponsored a Christmas Inter-Faith Food Bank depot, collecting more than 17 000 bags of groceries; in Montreal, employees worked with Sun Youth Organization volunteers to provide food baskets.

A responsible employer

- Employment equity initiatives have increased the representation of women, aboriginal peoples, people with disabilities and visible minorities.
- Petro-Canada provides a working environment for employees and services to the public in both official languages.
- Employee development is promoted through job postings, developmental assignments, training, seminars and tuition reimbursement.
- Employees with family responsibilities are assisted through part-time jobs and job sharing, flexible hours, day care in Calgary and an expanded parental leave policy.
- Efforts to ensure a safe and healthy workplace include seven occupational health centres, extensive formal safety training, procedures for handling hazardous substances and a smoke-free workplace.
- Employee fitness is encouraged through a fitness club at head office and subsidies for employees to join clubs at other locations.
- An employee assistance program provides confidential personal counselling to employees and their families.

Benefiting the Canadian economy

- A strict ethical code of conduct applies to all relations with suppliers, associates, customers and the public.
- Purchases of goods and services from more than 35 000 Canadian suppliers in 1990 provided jobs and benefits across the country.
- In 1990, Petro-Canada incurred $595 million of federal, provincial and municipal taxes, in addition to $136 million of Crown royalties on oil and gas production.

Results of Operations

Business conditions in 1990

Petro-Canada's results are significantly influenced by the business environment, in particular crude oil and natural gas prices and demand for natural gas and refined products.

The results of the Natural Resources segment are largely dependent on the price of crude oil on world markets dominated by OPEC. Prices in 1990 were highly volatile, ranging from a low of U.S. $15.30 per barrel for West Texas Intermediate to a high of U.S. $40.42 following the invasion of Kuwait. The average for the year was U.S. $24.50, compared to U.S. $19.58 in 1989.

In contrast, industry prices for natural gas continued at last year's low levels, averaging $1.60 per thousand cubic feet for Alberta plant gate gas and $1.38 for British Columbia wellhead gas, as competition among gas marketers prevented major increases in contract or spot sales prices. Overall, industry sales volumes were down approximately 0.5 per cent from 1989 levels. Record export sales failed to offset a decline of about 4.5 per cent in domestic sales.

Results of the Refined Products segment are affected by crude oil and refined product prices, demand for refined products, local market competition and refinery utilization. The sharply increased volatility of crude oil prices, combined with the traditional lag in adjusting refined product prices and the impact of significant price differentials on product imports from the United States, led to extreme variability in industry refined product margins. The onset of the recession in the Canadian economy depressed industry domestic sales of refined products by about 2.4 per cent below the previous year, particularly affecting sales volumes in Ontario. Retail market competition remained intense during 1990.

Consolidated results

Revenues on a consolidated basis rose 17 per cent to $5 873 million, reflecting higher sales prices and the inclusion, for the first time, of revenues of ICG Propane. Higher prices were offset in part by lower sales of refined products, crude oil and natural gas.

CRUDE OIL PRICES
(U.S. $ per barrel)

Based on trading month average NYMEX prices (one month forward) for West Texas Intermediate at Cushing

SUMMARY OF SEGMENTED RESULTS
(stated in millions of dollars)

	1990					1989				
	Natural Resources	Refined Products	Corporate and Other	Inter-segment sales	Consolidated	Natural Resources	Refined Products	Corporate and Other	Inter-segment sales	Consolidated
Segment revenue	**1 314**	**4 948**	**433**	**(822)**	**5 873**	1 151	4 442	73	(640)	5 026
Net earnings (loss)	**203**	**126**	**(148)**		**181**	89	104	(173)		20
Cash flow from (used in) operations	**480**	**258**	**(117)**		**621**	374	237	(159)		452
Proceeds from sales of property, plant and equipment	**211**	**36**	**9**		**256**	97	21			118
Expenditures on property, plant and equipment and exploration	**393**	**221**	**29**		**643**	334	209	25		568
Capital employed	**2 474**	**2 964**	**663**		**6 101**	2 498	2 822	203		5 523
Return on capital employed (per cent)	**8.2**	**4.4**	**5.1**		**6.0**	3.5	3.8	(13.9)		2.7
Cash flow return on capital employed (per cent)	**19.3**	**8.9**	**12.2**		**13.6**	14.7	8.7	(9.5)		10.4
Return on equity (per cent)					**7.2**					0.8

Note:
This table summarizes information contained in Note 20 to the consolidated financial statements. The results of ICG Propane Inc. are included in the Corporate and Other segment from January 1, 1990.

Consolidated net earnings were $181 million, compared to $20 million in 1989. Included in net earnings were $29 million in gains on disposals of assets, up from $25 million in the previous year.

The highest average crude price recorded since 1985 was the primary factor in earnings from Natural Resources operations more than doubling. The resultant increase in supply costs to Refined Products was recovered through higher product prices. However, a significant portion of the high-cost supply was held in inventory at year end. Improved margins were the main contributor to the increase in Refined Products earnings.

The cost of crude oil and product purchases rose 27 per cent or $524 million, primarily as a result of higher crude costs and the inclusion of ICG Propane's cost of sales of $210 million.

During 1990, the Company realized planned savings of $167 million in overhead and operating expenses from levels that would otherwise have been reached. These savings were attributable to the internal reorganization and staff reduction program initiated in 1989 at a cost of $92 million. Countering these savings were operating and general and administrative expenses of ICG Propane totalling $109 million and increases in costs, due largely to inflation. High refining costs, associated with an unusually high number of maintenance shutdowns at the Company's major refineries and a refinery fire, overshadowed decreases in other producing expenses. Overall, marketing, general and administrative expenses and producing and refining costs declined by $44 million.

A drop in depreciation, depletion and amortization charges more than offset higher exploration expenses. Federal sales and other taxes rose mainly due to higher rates of tax on gasoline and higher refined product prices.

Interest expenses were up $56 million due to higher interest rates and a net increase in total debt of $294 million, occasioned by the acquisition of ICG Propane and the financing of other investing activities.

Income taxes rose $115 million as a result of the $276 million increase in pre-tax earnings. The effective rate for income taxes dropped to 47.8 per cent from 71.8 per cent in 1989, reflecting the proportionately greater impact of non-deductible expenses included in 1989 pre-tax earnings.

Cash flow return on capital employed was 13.6 per cent, up from 10.4 per cent in 1989 due to higher cash flow from operations before deduction of interest expenses. Improved earnings increased the return on capital employed from 2.7 per cent to 6.0 per cent, while return on equity increased from 0.8 per cent to 7.2 per cent.

Natural Resources

Revenue in Natural Resources was $1 314 million, an increase of 14 per cent from 1989. Net earnings increased from $89 million to $203 million. Gains on asset disposals contributed $33 million, up from $23 million in 1989.

This improvement was due to a number of factors. Average sales prices for crude oil, bitumen and field natural gas liquids increased 24 per cent over 1989. Volumes dropped 6 per cent, largely as a result of naturally declining production and the sale of producing properties. Higher crude oil prices, partially offset by lower production volumes and a stronger Canadian/U.S. dollar exchange rate, contributed $109 million to the

CASH FLOW AND EARNINGS

(millions of dollars)

	86	87	88	89	90
Cash flow	650	726	597	452	621
Net earnings (loss)	7	92	(54)	20	181

RETURN ON CAPITAL EMPLOYED

(per cent)

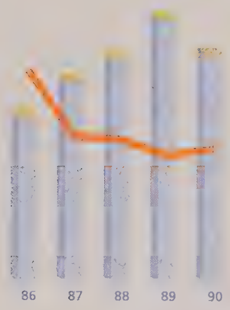
	86	87	88	89	[illegible]
Cash flow basis	13.8	14.9	12.3	10.4	[illegible]
Earnings basis	2.0	3.3	0.7	2.7	[illegible]

CONVENTIONAL CRUDE OIL, BITUMEN AND NATURAL GAS LIQUIDS

(net before royalties)

	86	87	88	89	90
Production (thousands of barrels per day)	80.2	80.0	79.6	75.2	67.6
Average sale price (dollars per barrel)	17.33	20.83	15.49	18.58	23.00

NATURAL GAS



(net before royalties)

	86	87	88	89	90
Production (millions of cubic feet per day)	359	435	485	573	498
Average sale price (dollars per thousand cubic feet)	2.11	1.62	1.60	1.48	1.53

PETROLEUM PRODUCT SALES

(thousands of cubic metres per day)

	86	87	88	89	90
Sales	44.4	45.6	43.8	44.4	42.7

revenue increase. Revenue from natural gas sales declined by $25 million, mainly because of a drop in production volumes of 13 per cent. This drop was caused primarily by price-related export restrictions on British Columbia production and final delivery in 1989 of take or pay volumes under a major pipeline contract. Lower deliverability and reduced shipper volumes were also factors. Sale prices for natural gas were up slightly over 1989, averaging $1.53 per thousand cubic feet. Revenue from natural gas liquids marketing, straddle plants and other businesses improved by $59 million, mainly as a result of higher prices.

Expenses in the Natural Resources segment included the cost of sales associated with natural gas liquids marketing and straddle plant operations, which rose $29 million, driven by higher prices on purchases of natural gas liquids. Producing, marketing, general and administrative expenses decreased $17 million, primarily the result of ongoing programs to control and reduce costs.

The reduction in depreciation, depletion and amortization charges amounting to $57 million was attributable to lower upstream production in 1990 and certain oil and gas property writedowns recorded in 1989. Somewhat higher exploration expenses were incurred in 1990 due to increased drilling, geophysical and geological expenses.

Income taxes rose $81 million to a total of $177 million on increased pre-tax earnings of $380 million, up from $185 million in 1989. Segment income taxes were provided at an effective rate of 46.6 per cent, compared to 51.9 per cent in 1989, as non-deductible items had a proportionately smaller impact on taxable earnings in 1990.

Refined Products

Revenue from Refined Products was $4 948 million, up 11 per cent from 1989, due to crude oil cost-driven price increases of 16 per cent, partially countered by a decline in sales volumes of approximately 3.8 per cent. Most of the decline in volume resulted from the recession in the Canadian economy. A contributing factor was the closure of marginal facilities.

Operating earnings increased 14 per cent to 2.4 cents per litre from 2.1 cents per litre in 1989. Net earnings were $126 million, 21 per cent higher than in 1989.

Crude oil and product purchase costs were up 18 per cent in 1990 to $2 880 million. Refining and other operating costs increased by $52 million due to an unusually high number of refinery maintenance shutdowns and a refinery fire. These cost increases were offset by savings of $55 million in marketing and general and administrative expenses related to rationalization and efficiency measures. Federal sales and other taxes were up $38 million as a result of higher rates of tax on gasoline and higher product prices. Depreciation and amortization charges increased slightly.

Income taxes rose $8 million to a total of $96 million on increased pre-tax earnings of $222 million. Income taxes were provided at a rate of 43.2 per cent, down from 45.8 per cent in 1989, as non-deductible expenses represented a smaller proportion of pre-tax earnings in 1990.

Corporate and Other

Corporate and Other revenues rose by $360 million to $433 million in 1990 with the acquisition of ICG Propane. Segment net losses decreased by $25 million to $148 million. Net earnings from ICG Propane were $5 million after amortization of the non-tax-deductible premium over book value of net assets acquired.

The reduced net loss in 1990 arose from a $92 million saving in general and administrative expenses linked to the non-recurrence of 1989 charges associated with the internal reorganization and staff reduction program. This saving was offset by an increase in interest expenses of $56 million due to higher interest rates and an increase in average debt levels. Pre-tax segment losses, excluding ICG Propane, were $41 million lower, resulting in a reduction in recovery of income taxes of $21 million.

Liquidity and Capital Resources

Operating activities

The Company has principally relied upon cash from operating activities supplemented by short- and long-term debt financing to fund its cash requirements. Short-term debt is used to fund working capital requirements and to provide bridge financing. As a Crown corporation, Petro-Canada has not been able to access public equity markets to raise capital for its activities.

Cash flow from operations was $621 million in 1990, up 37 per cent over 1989, due largely to higher earnings.

The increase in operating working capital of $307 million was due in part to the effects of significantly higher oil prices on the carrying value of crude oil and refined product inventories, accounts receivable and accounts payable. Other factors included a year-over-year reduction in income taxes payable and in advances owing to the former parent company. The increase in operating working capital would have been higher, were it not for the sale of $212 million of accounts receivable to a third party. Because of the increase in operating working capital requirements, cash generated from operating activities fell to $294 million, a drop of $110 million from 1989. The higher investment in operating working capital served to increase the current ratio to 1.0 from 0.8.

CORPORATE AND OTHER SEGMENT RESULTS
(stated in millions of dollars)

	ICG Propane Inc.		Corporate Activities		Total	
	1990	1989	**1990**	1989	**1990**	1989
Segment revenue	**362**	–	**71**	73	**433**	73
Net earnings (loss)	**5**	–	**(153)**	(173)	**(148)**	(173)
Cash flow from (used in) operations	**30**	–	**(147)**	(159)	**(117)**	(159)

Note:
The Corporate and Other segment includes the results of operations of ICG Propane from January 1, 1990.

Accounting Matters

During 1990, the Canadian Institute of Chartered Accountants (CICA) revised its standards on accounting for capital assets. The Company is required to apply these standards either prospectively or retroactively in 1991, but the CICA encourages earlier application. The new standards require changes in Petro-Canada's accounting policies for asset writedowns and for future removal and site restoration costs. The new asset writedown recommendation, which requires the net carrying value of an asset to be written down when it exceeds the net recoverable amount, was adopted prospectively by the Company in 1990. Previously, the Company applied a market value ''ceiling test'' to capitalized costs in each individual oil and gas producing field. This change in accounting increased 1990 net earnings by $31 million.

The new recommendation on future removal and site restoration costs requires that these costs be charged to earnings and accrued as a liability when such costs can be reasonably determined and when there is a probability of their being incurred. Petro-Canada is participating with other oil and gas companies to establish industry guidelines for estimating future restoration obligations, with a view to applying the new recommendation in 1991.

The Company reclassified certain items in prior years' consolidated statements of earnings to conform with new CICA recommendations on the presentation of extraordinary items. This reclassification did not affect net earnings.

The Company recorded a prior period adjustment as a result of income tax reassessments and related interest applicable to 1983 and proposed reassessments for other years prior to 1990. The cumulative amount charged to retained earnings as at January 1, 1990, was $173 million.

These accounting matters are described in more detail in Note 3 to the consolidated financial statements.

INVESTING ACTIVITIES
AND CASH FLOW

(millions of dollars)

	86	87	88	89	90
Investing activities	782	586	850	392	689
Cash flow	650	726	597	452	621
Reinvestment ratio	1.20	0.81	1.42	0.87	1.11

DEBT TO CAPITAL EMPLOYED
AND CASH FLOW TO DEBT

(per cent)

	86	87	88	89	90
Debt to capital employed	35.7	35.3	35.8	35.3	36.7
Cash flow to debt	34.1	36.6	29.7	23.2	27.7

Investing activities

Investing activities in 1990 totalled $689 million, of which $235 million was attributable to the acquisition of ICG Propane.

Expenditures on property, plant and equipment and exploration totalled $643 million, up $75 million over 1989. The Natural Resources segment accounted for 61 per cent of the outlay, compared to 59 per cent in 1989. Refining, marketing and other expenditures accounted for 39 per cent in 1990 and 41 per cent in 1989. The reinvestment rate of cash flow from operations rose to 111 per cent from 87 per cent in 1989.

Consistent with the Company's strategy, expenditures in Natural Resources in 1990 and 1989 focused on exploration and development in Western Canada and on international exploration. Expenditures in 1990 for conventional activities in Western Canada were $90 million for exploration and $106 million for development. Acquisitions of producing properties totalled $95 million. Spending in international areas amounted to $45 million and in oil sands and frontier areas $57 million. Of the latter amount, $12 million was related to the Hibernia project.

Refined Products expenditures on property, plant and equipment were $221 million in 1990, a small increase over 1989. Refining expenditures of $89 million were concentrated on reliability, environmental and safety programs. Marketing and other expenditures of $132 million included $59 million for the Company's 50 per cent share of MTBE plant construction costs. The balance was directed at the marketing network, especially retail site upgrading and underground tank replacement. Completion of the MTBE plant is expected by early 1992 at a total cost of $390 million.

Expenditures for Corporate and Other property, plant and equipment were $29 million, including $16 million in ICG Propane. Spending in 1989 was $25 million.

Environmental capital expenditures, included in expenditures on property, plant and equipment and exploration, totalled $68 million compared with $118 million in 1989. The majority of these costs were incurred in Refined Products in connection with the phase-out of leaded gasolines, refinery wastewater

SUMMARY OF STATEMENT OF CHANGES IN FINANCIAL POSITION
(stated in millions of dollars)

	1990	1989
Operating activities		
Cash flow from operations	621	452
Decrease in advances on future natural gas deliveries	(20)	(26)
Increase in operating working capital	(307)	(22)
	294	404
Investing activities	(689)	(392)
Financing activities and dividends	404	(69)
Increase (decrease) in cash	9	(57)

quality improvements and the upgrading of storage tanks at retail and wholesale marketing sites.

Proceeds from sales of assets generated $256 million, compared to $118 million in 1989. These sales were made as part of the Company's ongoing asset rationalization program. Proceeds of $211 million were realized from sales of oil and gas properties and an interest in the Sedco 710 semi-submersible drilling rig. Sales of retail and wholesale marketing assets contributed $36 million, while other assets were sold for $9 million.

Increases in investments and other assets totalled $67 million in 1990, as additional treasury shares issued by Westcoast Energy Inc. were subscribed for on a pro rata basis. This maintained an equity position of 37 per cent. In 1989, a reduction in investments combined with increases in other assets generated net funds of $58 million. Partial repayment to Petro-Canada of advances to Petro-Canada Centre was offset by Westcoast share purchases and additional pension funding.

Financing activities and dividends

The combined short-and long-term debt level was $2 242 million at year end, an increase of $294 million over the previous year. The increase consisted of new long-term debt of $348 million, partially offset by repayments and the retirement of three outstanding debt issues amounting to $51 million. New long-term debt consisted of a placement of U.S. $300 million, 20-year debentures with a coupon rate of 8.60 per cent. This long-term financing was undertaken to repay short-term notes payable and thereby lessen the Company's exposure to fluctuations in short-term interest rates.

Common shares were issued to Petro-Canada Limited for proceeds of $158 million. Dividends paid on common shares were $45 million in both 1990 and 1989.

A key financing objective of the Company is a prudent capital structure which balances business and financial risks while seeking financial market opportunities. As a key component of its borrowing strategy, the Company seeks to match the average term to maturity of long-term debt to the average life of its assets. At year end, the average term to maturity of Petro-Canada's long-term debt was approximately 15 years. Working capital and bridge financing requirements will continue to be met through the issuance of short-term debt.

Other financing obligations consisted of indemnities with respect to $230 million of long-term debt associated with Petro-Canada Centre, an office complex in which the Company holds a 50 per cent interest.

The Company's cash flow to debt ratio was 27.7 per cent at year end, up from 23.2 per cent in 1989 due to improved cash flow. Higher debt levels caused a slight year-over-year deterioration in the debt to capital employed and debt to debt plus equity ratios.

Risk Management

The Company continues to mitigate financial risks through the ongoing rebalancing of its fixed/floating rate debt to minimize the impact of interest rate fluctuations. Petro-Canada also diversifies its sources of funds and maintains an evenly distributed spectrum of long-term debt maturities while controlling the overall levels of borrowing.

Petro-Canada employs risk management strategies for its insurance program and in dealing with volatility in exchange rates, interest rates and commodity prices.

The broadest insurance coverage available is purchased in the world market for the full spectrum of the Company's insurable risks. Insurance limits, consistent with industry practice, are based on the largest probable loss estimates. Retentions, in the form of deductibles and self-insurance, are set at conservative levels.

As crude oil is priced in U.S. dollars, a significant portion of Petro-Canada's revenues is affected by fluctuations in the Canadian/U.S. exchange rate. Long-term borrowing requirements are funded primarily in U.S. dollars, providing a partial hedge against such currency fluctuations. The Company continually monitors its foreign currency requirements and applies hedging strategies to mitigate the risk of loss due to currency fluctuations. Borrowing in the United States also provides access to a larger and at times less expensive debt market than is available in Canada.

Petro-Canada hedges against adverse price movements in its basic products through a limited program of trading crude oil in commodity futures markets. The value of hedges and open positions at year end was not material.

Outlook for 1991

The view of many economic analysts is that the business climate in 1991 will remain influenced by the same forces underlying the unsettled environment of 1990. The recession in Canada is expected to last beyond mid 1991. If oil prices stay in the range of U.S. $18 to $23 per barrel for West Texas Intermediate, and short-term interest rates continue on a declining trend, economic recovery could start in the third quarter.

The Gulf war introduced a major element of uncertainty into the business outlook. The cessation of hostilities, combined with ample crude oil supplies on world markets, could depress crude oil prices in the short term.

Natural gas prices are likely to remain approximately at 1990 levels as excess production capability and transportation constraints remain the major factors underlying the intensely competitive North American natural gas market. The volume of Canadian exports to U.S. markets is expected to improve marginally from last year's 1.4 trillion cubic feet. The longer-term outlook for higher prices and sales volumes remains favourable.

The expectation for 1991 is that industry sales of refined products will be slightly below last year's level. It is anticipated that demand for refined products will increase once the current economic recession eases, possibly later in 1991, then grow modestly thereafter. Competition is expected to remain strong in the downstream while refiners and marketers continue efforts to rationalize overcapacity in some regions. Refined product margins will remain under the influence of a number of complex, interrelated factors, including local market competition, the cost of refined products imported from the United States, crude oil costs and the relative cost efficiencies of companies engaged in refining and marketing.

Barring unforeseen circumstances, Petro-Canada's levels of operations in 1991 are expected to be similar to those in 1990. Planned development initiatives in the upstream should stabilize crude oil and natural gas liquids production at about the 1990 level. Natural gas production is expected to increase slightly. In the downstream, sales volumes of refined product should approximate 1990 levels as lower crude oil prices, improved economic activity and marketing strategies begin to reverse the decline experienced in 1990.

Petro-Canada entered 1991 with downstream petroleum inventories for which the crude oil component had been purchased at costs averaging U.S. $33 per barrel. At the commencement of hostilities in the Persian Gulf in January 1991, crude oil prices dropped by U.S. $13 over a two-day period, a clear illustration of the exceptionally volatile and unique environment governing world crude oil markets. Crude oil prices have not recovered since then. Earnings are expected to decline significantly in the first quarter of 1991, especially from Refined Products, due to the drop in both crude oil and refined product selling prices in early 1991, compounded by the flow-through of high-cost crude oil inventories to cost of sales.

Based on actual levels of operations in 1990, the main factors which affected pre-tax cash flow from operations are shown in the "Sensitivities" table. As the factors may be interrelated, the impact of a change in one factor may be compounded or offset by changes in other factors. The application of these sensitivities may not necessarily lead to an accurate prediction of future results of operations.

Future capital expenditures will be financed primarily by cash from operations and proceeds from asset sales. Subject to business conditions and the achievement of asset sales objectives, Petro-Canada anticipates that capital and exploration expenditures will approach $860 million in 1991. Excluding the $235 million acquisition of ICG Propane in 1990, that is an increase of $150 million over 1990. Added expenditures, as currently planned, relate mainly to the Hibernia offshore project, MTBE plant construction and upgrading of downstream facilities.

On the basis of the agreement signed in late 1990 to proceed with Hibernia, Petro-Canada as a 25 per cent participant expects to incur approximately $1.1 billion of estimated pre-production expenditures over the 1991-1996 period after federal and provincial government grants. In 1991, expenditures net of grants are expected to be $100 million, with a further $200 million in each of 1992 and 1993.

The asset rationalization program will continue in 1991 and 1992. Both Natural Resources and Refined Products assets will be involved. Early in 1991, the Company announced it will close its refinery at Taylor, British Columbia, and sell associated assets for net proceeds of $13 million.

A key management objective in 1991 is the successful privatization of Petro-Canada. The public offering of shares will allow the Company to reduce its short-term debt, thereby strengthening its capital structure.

Effects of inflation

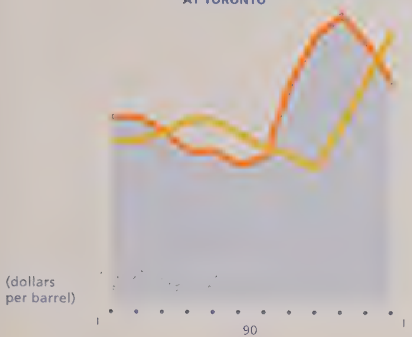
The Company's capital expenditures and operating, marketing, general and administrative expenses are subject to the effects of inflation. Prices received for oil and gas production are not readily adjustable to cover any inflation-related increase in costs.

SENSITIVITIES AFFECTING PRE-TAX CASH FLOW FROM OPERATIONS
(based on actual levels of operations in 1990)

Factor	Average 1990	Increase	Approximate increase (decrease) on pre-tax cash flow from operations (millions of dollars)
Natural Resources			
Price of crude oil	U.S. $24.50 per barrel	U.S. $1.00 per barrel	$27
Price of natural gas	$1.53 per thousand cubic feet	$0.10 per thousand cubic feet	14
Production of conventional crude oil	52 000 barrels per day	1 000 barrels per day	7
Production of natural gas	498 million cubic feet per day	10 million cubic feet per day	5
Canadian dollar/U.S. dollar exchange rate	$0.86	$0.01	(8)
Refined Products[2]			
Average sales price of gasoline[3]	$0.34 per litre	$0.01 per litre	71
Crude oil and product purchases	$189.21 per cubic metre	$1.00 per cubic metre	(15)
Petroleum product operating margins[4]	2.4 cents per litre	0.1 cents per litre	16

Notes:
1. As the factors noted may be interrelated, the impact of a change in one factor may be compounded or offset by changes in other factors. The application of these sensitivities may not necessarily lead to an accurate prediction of future results of operations.
2. Impacts related to Refined Products are independent of those related to Natural Resources.
3. Average sales price of gasoline does not include federal excise taxes or provincial motor fuel taxes.
4. Operating earnings before depreciation, amortization and income taxes.

SPOT CRUDE OIL PRICES AND FLOW-THROUGH CRUDE OIL COST AT TORONTO



Spot price	27	27	25	22	22	20	21	32	39	42	38	32
Flow-through cost	24	24	25	27	27	25	23	22	20	26	33	40

Refined Product Pricing and Crude Oil Costs

Many factors influence refined product prices in the marketplace besides crude oil costs and sales taxes.

In the short run, competitive conditions in local markets remain the most important determinant of motor gasoline prices. Over time, refiners seek to recover raw material costs, but competition prevents any direct flow-through to product prices, which are set by the market and thus difficult to predict.

The distance between the primary sources of crude oil purchases, in Western Canada, and the major markets for refined products, in Central Canada, results in a 60 to 90 day delay before purchased crude oil is transformed into refined product and sold to the end user. Consequently, the flow-through of crude oil costs to Canadian consumers normally lags behind current crude oil costs.

Most Canadian refiners adhere to an accounting procedure which matches finished product sales to the physical flow of crude oil, commonly referred to as ''first-in, first-out'' or ''FIFO''. Thus, the price of the first barrel of crude oil placed in inventory should be reflected in the first litre of refined product sold.

Conversely, most U.S. companies employ an accounting procedure known as ''last-in, first-out'' or ''LIFO''. This method of inventory costing matches the cost of the most recent barrel of crude oil placed in inventory with the price of the first gallon of product sold. As a result, there is a high correlation between current crude oil costs and refined product prices, with little or none of the delay prevalent in the Canadian market.

With an open border permitting access on both sides to refined product at the wholesale or ''rack'' level, these contrasting methods of inventory costing have a major impact on Canadian product pricing. The impact is particularly large during periods of extreme volatility in crude oil prices, as in the latter part of 1990 and early 1991.

During periods of rising crude costs, refined product prices in the United States rise more quickly than in Canada, reflecting the differences between the FIFO and LIFO inventory costing methods. Cross-border purchases by U.S. marketers of lower-priced Canadian products contribute to the firming of prices in Canada. With an increase in competitive activity and a more rapid drawdown of refined product inventories, Canadian prices may actually increase differently from what would be expected, sometimes lagging and sometimes leading the actual flow-through of crude oil costs.

During periods of falling crude oil costs, the opposite occurs. Canadian ''rack'' purchasers import lower-priced refined products from the United States. Lower U.S. prices and the competitive nature of petroleum marketing in North America exert downward pressure on prices, often much more quickly than would allow Canadian refiners to recover the actual flow-through cost of crude oil.

These striking differences between inventory costing methods in the Canadian and U.S. markets contributed to the Canadian downstream industry's strong financial performance during the second half of 1990, a period of rising crude oil costs. For the same reason, depressed earnings are anticipated during the first quarter of 1991, when crude oil prices dropped sharply.

Glossary of Financial Terms and Ratios

TERMS

Cash flow
Cash flow from operations[1].

Capital employed
Total assets less current liabilities excluding short-term notes payable and the current portion of long-term debt.

Debt
Short-term notes payable and long-term debt including current portion[2].

RATIOS

Current ratio
Current assets divided by current liabilities. Reflects the Company's short-term liquidity and its ability to pay short-term trade debts.

Cash flow to debt
Cash flow divided by debt. Indicates the Company's ability to discharge its outstanding debt.

Debt to debt plus equity
Debt divided by debt plus equity[3]. Shows the relative amount of debt in the Company's capital structure. It is a measure of financial strength.

Debt to capital employed
Debt divided by capital employed. Measures the extent to which the Company's asset base has been financed by debt.

Interest coverage
Earnings basis: Earnings[4] before interest expense and provision for income taxes divided by interest expense plus capitalized interest[5]. Cash flow basis: Cash flow[4] before interest expense and current income taxes divided by interest expense plus capitalized interest[5]. Both are indicators of the Company's ability to service its debt.

Reinvestment ratio
Net expenditures on investing activities divided by cash flow. Indicates the rate at which cash flow is reinvested.

Cash flow return on capital employed
Cash flow[4] plus after-tax interest expense divided by average capital employed. Measures cash flow generated relative to the asset base.

Return on capital employed
Net earnings[4] plus after-tax interest expense divided by average capital employed. Measures earnings generated relative to the asset base.

Return on equity
Net earnings divided by average shareholder's equity[3]. Measures the return earned by the shareholder on its investment in the Company.

Notes:
1 Prior to 1989 – deduct dividends on redeemable preferred shares.
2 Prior to 1988 – add redeemable preferred shares valued at year end Cdn./U.S. dollar exchange rates.
3 Prior to 1988 – reduce shareholder's equity by the valuation adjustment on redeemable preferred shares at year-end Cdn./U.S. dollar exchange rates.
4 Prior to 1989 – add back dividends on redeemable preferred shares.
5 Prior to 1989 – add back dividends on redeemable preferred shares grossed up by 1/1 – tax rate.

Management's Responsibility for the Financial Statements

The financial statements have been prepared by management in accordance with generally accepted accounting principles appropriate in the circumstances. Management is responsible for the other information in the Annual Report, which is consistent, where applicable, with that contained in the financial statements. Management is also responsible for installing and maintaining a system of internal control to provide reasonable assurance that reliable financial information is produced. The Company has an internal audit department whose functions include reviewing the system of internal control to ensure that it is adequate and functioning properly.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. This responsibility has been carried out by the Board of Directors of Petro-Canada Limited (formerly Petro-Canada), the former parent company, principally through its Audit Committee. The Audit Committee has met with management, the internal auditors and the external auditors to satisfy itself that responsibilities were discharged properly and to review the financial statements.

The external auditors conduct an independent examination, in accordance with generally accepted auditing standards, and express their opinion on the financial statements. Their examination includes a review and evaluation of the Company's system of internal control and appropriate tests and procedures to provide reasonable assurance that the financial statements are presented fairly. The external auditors have full and free access to the Audit Committee of the Board.

Auditors' Report

To the Honourable John McDermid, P.C., M.P.
Minister of State (Privatization and Regulatory Affairs)
House of Commons, Ottawa, Ontario

We have audited the consolidated balance sheet of Petro-Canada (formerly Petro-Canada Inc.) as at December 31, 1990 and 1989 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1990 and 1989 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles. As required by the Financial Administration Act, we report that, in our opinion, except for the change in the method of accounting for capital asset writedowns as explained in Note 3(b) to the consolidated financial statements, the accounting principles have been applied, after giving retroactive effect to the change in the method of accounting for extraordinary items as explained in Note 3(a) to the consolidated financial statements, on a consistent basis.

Further, we have audited the transactions of the Company and its consolidated wholly-owned subsidiaries that came to our notice in the course of the above mentioned audits, to determine whether they were in accordance with Part X of the Financial Administration Act, the regulations, the charter and by-laws of the Company and its consolidated wholly-owned subsidiaries and any directives given to the Company pursuant to the Act. Our examinations of these transactions were made in accordance with generally accepted auditing standards. In our opinion, these transactions were, in all significant respects, in compliance with the authorities specified.

Arthur Andersen & Co.
Chartered Accountants

Calgary, Alberta
February 15, 1991

Consolidated Statement of Earnings

For the years ended December 31,
(stated in millions of dollars)

	1990	1989 (Restated) (Note 3)
Revenue		
Operating	$ 5 680	$ 4 852
Investment and other income	193	174
	5 873	5 026
Expenses		
Crude oil and product purchases	2 501	1 977
Marketing, general and administrative (Note 5)	995	1 064
Producing and refining	839	814
Exploration	111	98
Depreciation, depletion and amortization	373	396
Federal sales and other taxes (Note 6)	429	384
Interest on long-term debt	137	101
Other interest	141	121
	5 526	4 955
Earnings before Income Taxes	347	71
Provision for Income Taxes (Note 7)		
Current	130	52
Deferred	36	(1)
	166	51
Net Earnings	$ 181	$ 20

Consolidated Statement of Retained Earnings

For the years ended December 31,
(stated in millions of dollars)

	1990	1989 (Restated) (Note 3)
Retained Earnings (Deficit) at Beginning of Year, as previously reported	$ –	$ (987)
Prior period adjustment (Note 3)	(173)	(148)
Retained Earnings (Deficit) at Beginning of Year, as restated	(173)	(1 135)
Transfer from contributed surplus (Note 17)	135	987
Net earnings	181	20
Dividends on common shares	(45)	(45)
Retained Earnings (Deficit) at End of Year	$ 98	$ (173)

Consolidated Statement of Changes in Financial Position

For the years ended December 31,
(stated in millions of dollars)

	1990	1989 (Restated) (Note 3)
Operating Activities		
Net earnings	$ 181	$ 20
Non-cash items included in earnings (Note 8)	329	334
Exploration expenses	111	98
Cash flow from operations	621	452
Decrease in advances on future natural gas deliveries	(20)	(26)
Increase in operating working capital (Note 9)	(307)	(22)
	294	404
Investing Activities		
Acquisition of ICG Propane Inc. (Note 4)	(235)	–
Expenditures on property, plant and equipment and exploration	(643)	(568)
Proceeds from sale of property, plant and equipment	256	118
(Increase) decrease in investments, net	(50)	76
Increase in other assets, net	(17)	(18)
	(689)	(392)
Financing Activities and Dividends		
Proceeds from issue of long-term debt	347	240
Proceeds from issue of common shares	158	–
Decrease in short-term notes payable, net	(5)	(258)
Dividends on common shares	(45)	(45)
Reduction of long-term debt	(51)	(6)
	404	(69)
Increase (Decrease) in Cash	9	(57)
Cash and Short-Term Deposits at Beginning of Year	27	84
Cash and Short-Term Deposits at End of Year	$ 36	$ 27

Consolidated Balance Sheet

As at December 31,
(stated in millions of dollars)

	1990	1989 (Restated) (Note 3)
Assets		
Current Assets		
Cash and short-term deposits	$ 36	$ 27
Accounts receivable (Note 10)	773	808
Inventories (Note 11)	964	677
Prepaid expenses	48	45
	1 821	1 557
Investments (Note 12)	504	467
Property, Plant and Equipment, net (Note 13)	4 778	4 626
Other Assets (Note 14)	175	93
	$ 7 278	$ 6 743
Liabilities and Shareholder's Equity		
Current Liabilities		
Short-term notes payable (Note 19)	$ 705	$ 710
Accounts payable and accrued liabilities	1 043	875
Income taxes payable	134	197
Advances (Note 19)	–	148
Current portion of long-term debt	–	6
	1 882	1 936
Long-Term Debt (Note 15)	1 537	1 232
Deferred Credits (Note 16)	191	231
Deferred Income Taxes	997	967
Shareholder's Equity (Note 17)	2 671	2 377
	$ 7 278	$ 6 743

Approved on behalf of the Board

Director

Director

(stated in millions of dollars)

Note 1: Summary of Significant Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements include the accounts of Petro-Canada (formerly Petro-Canada Inc.) and of all subsidiary companies (''the Company'').

The excess of the consideration paid for the shares of subsidiaries over the underlying net book values at the dates of acquisition is attributed to the related assets acquired and is amortized over the life of these assets.

(b) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of crude oil, refined products and merchandise is determined on a ''first-in, first-out'' basis.

(c) Investments

The Company accounts for investments in companies over which it has significant influence on the equity method. Other long-term investments are accounted for on the cost method.

(d) Property, Plant and Equipment

The Company accounts for its investment in exploration and development activities on the successful efforts method. Under this method the acquisition cost of unproved acreage is capitalized. Costs of exploratory wells are initially capitalized pending determination of proved reserves and costs of wells which are assigned proved reserves remain capitalized while costs of unsuccessful wells are charged to earnings. All other exploration costs are charged to earnings as incurred. Development costs, including the cost of all wells, are capitalized.

Substantially all of the Company's exploration and development activities are conducted jointly with others. Only the Company's proportionate interest in such activities is reflected in the financial statements.

The interest cost of debt attributable to the construction of major new facilities is capitalized during the construction period.

Overburden removal costs relating to oil sands which will be mined in future years are deferred and are charged to earnings when the related oil sands are mined.

(e) Depreciation, Depletion and Amortization

The carrying amounts of significant unproved properties are evaluated periodically for impairment with any such impairment being charged to earnings. The cost of other unproved properties is amortized over their average holding period.

Depreciation and depletion of capitalized costs of oil and gas producing properties is calculated using the unit of production method.

Depreciation of other plant and equipment is provided on either the unit of production method or the straight line method as appropriate. Straight line depreciation rates are based on the estimated service lives of the related assets.

(stated in millions of dollars)

Note 1: (Continued)

(f) Income Taxes

The Company makes full provision for income taxes deferred as the result of claiming depreciation, exploration, development and other costs for income tax purposes which differ from the related amounts charged to earnings.

(g) Translation of Foreign Currency

Monetary assets and liabilities are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Other assets and related depreciation, depletion and amortization, other liabilities, revenue and other expense items are translated at rates of exchange in effect at the respective transaction dates. The resulting exchange gains or losses are included in earnings, except for unrealized exchange gains or losses arising on translation of long-term debt, which are deferred and amortized over the remaining term of the debt.

Foreign operations are integrated with the Company's other activities and are translated in the manner described above.

(h) Postemployment Benefits

In addition to its pension plans the Company provides for other postemployment benefits, including health, dental and life insurance, to its qualifying retirees. The cost of these benefits is charged to earnings when paid by the Company.

Note 2: The Petro-Canada Public Participation Act

On February 1, 1991 the Petro-Canada Public Participation Act (''the Act'') received Royal Assent. The Act authorizes the Company to proceed with an Initial Public Offering of shares of the Company to the public subject to restrictions on non-resident and individual share ownership of 25% and 10%, respectively.

The Act also provides that:

- the name of the Company is changed from Petro-Canada Inc. to Petro-Canada,
- the name of the former parent company is changed from Petro-Canada to Petro-Canada Limited,
- the shares of the Company held by Petro-Canada Limited are transferred to the Minister of State (Privatization and Regulatory Affairs),
- the Company's head office will be situated in Calgary, and
- the sale of substantially all of the assets of individual business segments is restricted.

The Company is negotiating arrangements for its short-term and long-term financing requirements, including the servicing and refinancing of its present indebtedness to Petro-Canada Limited.

(stated in millions of dollars)

Note 3: Accounting Changes and Prior Period Adjustment

Changes in Accounting Policies

(a) In 1990 the Company adopted, retroactively, the new recommendations of the Canadian Institute of Chartered Accountants on the presentation of extraordinary items. Items previously reported as extraordinary have been reclassified as expenses of continuing operations and the related income tax effects have been included with the provision for income taxes.

(b) In 1990 the Company adopted, prospectively, the new recommendations of the Canadian Institute of Chartered Accountants on capital asset writedowns. The new recommendations require a writedown when the net carrying amount of an asset exceeds the net recoverable amount. Previously the Company applied a ''ceiling test'' to capitalized costs of oil and gas producing properties to ensure that these costs in each individual field did not exceed the fair market value of the related proved reserves. The effect of this change was to increase 1990 net earnings by $31 million.

Prior Period Adjustment

In 1990 the Company was reassessed for income taxes and related interest for the 1983 taxation year and was notified of proposed reassessments for other years prior to 1990. As a result, the previously reported income tax provisions, net earnings and retained earnings have been adjusted and the financial statements for these years have been restated. Accordingly, retained earnings as at January 1, 1990 and 1989 have been reduced by $173 million and $148 million, and 1990 and 1989 net earnings have been reduced by $17 million and $25 million, respectively.

Note 4: Acquisition of ICG Propane Inc.

In 1990 the Company completed its acquisition of ICG Propane Inc., the propane division of Inter-City Gas Corporation. This acquisition was effective January 1, 1990 and has been accounted for by the purchase method as follows:

Book value of assets acquired		$ 164
Book value of assumed liabilities		(78)
		86
Excess of attributed value over book value of acquired net assets:		
Property, plant and equipment	$ 71	
Goodwill	78	149
Total cost of acquisition		$ 235

Funds for the acquisition were provided from cash flow from operations and short-term borrowings.

Note 5: Marketing, General and Administrative

In 1989 the Company implemented an internal reorganization program which resulted in a staff reduction. The cost of this program, in the amount of $92 million, is included in 1989 marketing, general and administrative expenses.

(stated in millions of dollars)

Note 6: Taxes and Crown Royalties

		1990		1989
Items included in the statement of earnings:				
Federal sales taxes	$	363	$	328
Other taxes		66		56
		429		384
Provision for income taxes		166		51
	$	595	$	435

In addition, Crown royalties paid and paid in kind of $136 million (1989 – $133 million) together with federal excise taxes and provincial fuel and sales taxes of $1 675 million (1989 – $1 554 million) are not included in the statement of earnings.

Note 7: Income Taxes

The provision for income taxes of $166 million (1989 – $51 million) represents an effective rate of 47.8% (1989 – 71.8%) on earnings before income taxes of $347 million (1989 – $71 million). The computation of the provision, which requires adjustment to earnings before income taxes for non-taxable and non-allowable items, is as follows:

		1990		1989
Earnings before income taxes	$	347	$	71
Add (deduct)				
Royalties and other payments to provincial governments, net		139		137
Federal allowances				
Resource allowance		(133)		(103)
Tax depletion		–		(36)
Non-deductible depreciation, depletion and amortization		73		68
Non-deductible interest		17		20
Non-taxable gains		(6)		(7)
Equity in earnings of affiliates		(37)		(31)
Other		(19)		(8)
Earnings as adjusted before income taxes	$	381	$	111
Canadian Federal income tax at 38.0% (1989 – 39.5%) applied to earnings as adjusted	$	145	$	44
Large Corporations Tax		10		5
Provincial and other income taxes, net of federal abatement		13		7
Provincial income tax rebates		(2)		(5)
Provision for income taxes	$	166	$	51

(stated in millions of dollars)

Note 8: Non-Cash Items Included in Earnings

	1990	1989
Depreciation, depletion and amortization	$ 373	$ 396
Gain on sale of property, plant and equipment	(69)	(45)
Deferred income taxes	36	(1)
Equity earnings, net of dividends received	(9)	(6)
Other	(2)	(10)
	$ 329	$ 334

Note 9: Increase in Operating Working Capital

	1990	1989
Accounts receivable	$ 35	$ (73)
Inventories	(287)	(117)
Prepaid expenses	(3)	(4)
Accounts payable and accrued liabilities	168	110
Income taxes payable	(63)	17
Advances	(148)	45
Other	(9)	–
	$ (307)	$ (22)

Operating working capital is comprised of working capital other than cash and short-term deposits, short-term notes payable and current portion of long-term debt.

Note 10: Accounts Receivable

In 1990 the Company entered into an agreement to sell, with limited recourse, accounts receivable on a revolving basis. As at December 31, 1990 accounts receivable of $212 million have been sold pursuant to this agreement, resulting in cash proceeds of $200 million.

Note 11: Inventories

	1990	1989
Crude oil, refined products and merchandise	$ 907	$ 615
Materials and supplies	57	62
	$ 964	$ 677

(stated in millions of dollars)

Note 12: Investments

	1990	1989
At equity		
Westcoast Energy Inc.	**$ 353**	$ 293
Petro-Canada Centre	**92**	94
Other	**28**	42
At cost		
Mortgages and other investments	**31**	38
	$ 504	$ 467

Westcoast Energy Inc. ("Westcoast")
At December 31, 1990 the Company held approximately 37% (1989 – 37%) of the outstanding common shares of Westcoast with a quoted market value of $453 million (1989 – $378 million).

Petro-Canada Centre
The Company owns 50% of Petro-Canada Centre, an office complex in Calgary. The Company has entered into a long-term lease for use of a portion of the complex and, as at December 31, 1990, has provided support for a guarantee of $230 million of long-term debt related to the facility.

Note 13: Property, Plant and Equipment

	1990			1989			1990	1989
	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Capital Expenditures	
Natural resources								
Oil and gas								
Canada	**$ 3 669**	**$ 1 972**	**$ 1 697**	$ 3 746	$ 2 030	$ 1 716	**$ 237**	$ 187
Foreign	**18**	**3**	**15**	87	57	30	**5**	22
Oil sands								
Syncrude Project	**787**	**197**	**590**	764	173	591	**23**	13
Other	**217**	**217**	**–**	212	212	–	**5**	7
Natural gas liquids	**228**	**114**	**114**	217	103	114	**11**	4
Other	**77**	**56**	**21**	76	53	23	**1**	3
	4 996	**2 559**	**2 437**	5 102	2 628	2 474	**282**	236
Refined products								
Refining	**1 838**	**579**	**1 259**	1 762	495	1 267	**89**	115
Marketing and other	**1 060**	**246**	**814**	950	198	752	**132**	94
	2 898	**825**	**2 073**	2 712	693	2 019	**221**	209
Other property, plant and equipment	**509**	**241**	**268**	322	189	133	**29**	25
	$ 8 403	**$ 3 625**	**$ 4 778**	$ 8 136	$ 3 510	$ 4 626	**$ 532**	$ 470

Capital expenditures include $2 million (1989 – $nil) of capitalized interest.

(stated in millions of dollars)

Note 14: Other Assets

	1990	1989
At cost		
Oil sands overburden removal costs	$ 47	$ 43
Less portion related to oil sands to be mined within one year	21	18
	26	25
Deferred pension funding	32	36
At amortized cost		
Goodwill	72	1
Deferred financing costs	18	17
Other	27	14
	$ 175	$ 93

Note 15: Long-Term Debt

	Maturity	1990	1989
In Canadian dollars			
8.25% unsecured notes		$ –	$ 11
In United States dollars			
7.75% unsecured notes		–	14
9% unsecured notes		–	26
LIBOR less 0.8% unsecured notes (U.S. $125 million)	1995	145	144
7.25% unsecured debentures (U.S. $200 million)[1]	1996	232	232
9.50% unsecured debentures (U.S. $200 million)[1]	2003	232	232
8.60% unsecured debentures (U.S. $300 million)[1]	2010	348	–
8.25% unsecured debentures (U.S. $200 million)[1]	2016	232	232
9.70% unsecured debentures (U.S. $100 million)[1]	2018	116	115
8.80% unsecured debentures (U.S. $200 million)[1]	2019[2]	232	232
		1 537	1 238
Less current portion		–	6
		$ 1 537	$ 1 232

1 Due to Petro-Canada Limited (Note 19).
2 Redeemable in 2004 at the option of the holder thereof.

The minimum repayment of long-term debt in the next five years is $145 million in 1995.

Note 16: Deferred Credits

	1990	1989
Translation adjustment on long-term debt	$ 100	$ 114
Advances on future natural gas deliveries	49	69
Long-term liabilities	42	48
	$ 191	$ 231

(stated in millions of dollars)

Note 17: Shareholder's Equity

		1990		1989
Common shares	$	**1**	$	1 000
Contributed surplus		**2 572**		1 550
Retained earnings (deficit)		**98**		(173)
	$	**2 671**	$	2 377

The authorized share capital of the Company is comprised of an unlimited number of:
(a) Canadian dollar cumulative, redeemable, preferred shares without nominal or par value;
(b) U.S. dollar cumulative, redeemable, preferred shares without nominal or par value;
(c) Class A non-cumulative, non-voting, preferred shares without nominal or par value; and
(d) Common shares without nominal or par value.

Changes in Share Capital and Contributed Surplus were as follows:

	1990					1989				
	Common Shares					Common Shares				
	Shares		Amount		Contributed Surplus	Shares		Amount		Contributed Surplus
Balance at beginning of year	**4 216 011**	**$**	**1 000**	**$**	**1 550**	4 216 011	$	1 000	$	2 537
Issued for cash	**189 910**		**158**		**–**	–		–		–
Reduction of stated capital	**–**		**(1 157)**		**1 157**	–		–		–
Transfer to retained earnings	**–**		**–**		**(135)**	–		–		(987)
Balance at end of year	**4 405 921**	**$**	**1**	**$**	**2 572**	4 216 011	$	1 000	$	1 550

In 1989 the Company approved the adoption of the successful efforts method of accounting which resulted in a decrease in retained earnings to a deficit of $987 million as at January 1, 1989. An amount of $987 million was transferred from contributed surplus to retained earnings to offset this deficit.

In October 1990 a reduction in the common share stated capital of $1 157 million and a corresponding increase in contributed surplus, together with a transfer from contributed surplus to retained earnings, were approved. The transfer from contributed surplus to retained earnings offset a deficit of $135 million.

In January 1991 the Company issued 37 415 common shares for a cash consideration of $31 million to Petro-Canada Limited, thereby increasing the number of issued common shares to 4 443 336.

In January 1991 the Company approved articles which amended its authorized share capital so as to provide for an unlimited number of:
(a) Preferred shares issuable in series designated as Senior Preferred Shares;
(b) Preferred shares issuable in series designated as Junior Preferred Shares; and
(c) Common shares.

Note 18: Pension Plans

The Company's plans are defined benefit plans with the benefits generally based upon years of service and average salary during the final years of employment. They are funded by the Company based upon the advice of an independent actuary.

Plan Status as at December 31		1990		1989
Actuarial value of assets	$	**588**	$	536
Pension obligation		**527**		508
Net pension asset	$	**61**	$	28

The net pension asset is amortized to earnings over the expected average remaining service life of the employees covered by the plans, which is currently 13 years.

Pension funding and expense amounted to $9 million (1989 – $31 million) and $12 million (1989 – $20 million), respectively.

(stated in millions of dollars)

Note 19: Related Party Transactions

The Company has short-term notes payable, advances and long-term debt (Note 15) payable to Petro-Canada Limited, the former parent company (Note 2), and is negotiating with the Government of Canada to provide for the servicing and refinancing of this indebtedness.

Transactions with the Government of Canada and its agencies are in the normal course of business and are therefore on the same terms as those accorded to non-related parties.

Note 20: Segmented Information

The Company operates in two business segments:

Natural Resources, comprising: exploration, development, production, transportation and marketing activities for crude oil, natural gas, field liquids, sulphur and oil sands; and extraction of liquids from natural gas.

Refined Products, comprising: purchase and sale of crude oil; refining crude oil into oil products; and distribution and marketing of these and other purchased products.

Financial information by business segment is presented in the following table as though each segment were a separate business entity. Inter-segment transfers of products, which are accounted for at market value, are eliminated on consolidation. Corporate and Other includes propane marketing, investment income, interest expense and unallocated general corporate revenues and expenditures. Corporate and Other assets are principally cash and short-term deposits, investments in other companies, propane marketing assets and general corporate assets.

	Natural Resources		Refined Products		Corporate and Other		Consolidated	
	1990	1989	**1990**	1989	**1990**	1989	**1990**	1989
Revenue								
Sales to customers and other revenues	**$ 506**	$ 511	**$ 4 934**	$ 4 442	**$ 433**	$ 73	**$ 5 873**	$ 5 026
Inter-segment sales	**808**	640	**14**	–	**–**	–		
Segment Revenue	**$ 1 314**	$ 1 151	**$ 4 948**	$ 4 442	**$ 433**	$ 73		
Earnings								
Operating earnings (loss) before the following:	**$ 678**	$ 527	**$ 377**	$ 339	**$ 54**	$ (79)	**$ 1 109**	$ 787
Depreciation, depletion and amortization	**(187)**	(244)	**(155)**	(147)	**(31)**	(5)	**(373)**	(396)
Exploration expense	**(111)**	(98)	**–**	–	**–**	–	**(111)**	(98)
Interest	**–**	–	**–**	–	**(278)**	(222)	**(278)**	(222)
Provision for income taxes	**(177)**	(96)	**(96)**	(88)	**107**	133	**(166)**	(51)
Net Earnings (Loss)	**$ 203**	$ 89	**$ 126**	$ 104	**$ (148)**	$ (173)	**$ 181**	$ 20
Capital and Exploration Expenditures								
Property, plant and equipment and exploration expenditures	**$ 393**	$ 334	**$ 221**	$ 209	**$ 29**	$ 25	**$ 643**	$ 568
Investments	**–**	–	**1**	(1)	**49**	(75)	**50**	(76)
Other assets	**2**	4	**10**	3	**5**	11	**17**	18
Acquisitions	**–**	–	**–**	–	**235**	–	**235**	–
	$ 395	$ 338	**$ 232**	$ 211	**$ 318**	$ (39)	**$ 945**	$ 510
Total Assets	**$ 2 724**	$ 2 733	**$ 3 694**	$ 3 406	**$ 860**	$ 604	**$ 7 278**	$ 6 743
Capital Employed	**$ 2 474**	$ 2 498	**$ 2 964**	$ 2 822	**$ 663**	$ 203	**$ 6 101**	$ 5 523

(stated in millions of dollars)

Note 21: Comparative Figures

Certain reclassifications have been made to the 1989 comparative figures to conform with the current year's presentation.

Note 22: Commitments and Contingent Liabilities

Commitments

(a) The Company has leased property and equipment under various long-term operating leases for periods up to 2009. The minimum annual rentals for non-cancellable operating leases are estimated at $115 million in 1991, $108 million in 1992, $83 million in 1993, $68 million in 1994, $56 million in 1995 and $34 million per year thereafter until 2009.

(b) During 1990 the Company signed agreements with other joint venture participants and with the governments of Canada and Newfoundland and Labrador to develop the Hibernia offshore oil field. Costs of this project to production start-up, which is expected in 1996, are estimated at $5.2 billion; the Company's 25% share after government contributions is expected to be approximately $1.1 billion. It is anticipated that total development costs subsequent to production start-up, estimated at approximately $3.4 billion, will be financed from cash flow from the Hibernia project.

Contingent Liabilities

The Company is involved in litigation and claims associated with normal operations. Management is of the opinion that any resulting settlements would not materially affect the financial position of the Company.

Operations Information

Reserves

(proved reserves, net after royalties)

	1990 Developed	1990 Undeveloped	1990 Total	1989 Developed	1989 Undeveloped	1989 Total
Crude oil and field natural gas liquids (millions of barrels)						
Conventional crude oil	**149.1**	**39.6**	**188.7**	174.4	11.1	185.5
Synthetic and bitumen	**207.6**	**–**	**207.6**	194.6	18.0	212.6
Field natural gas liquids	**33.4**	**4.8**	**38.2**	32.1	3.5	35.6
Total	**390.1**	**44.4**	**434.5**	401.1	32.6	433.7
Natural gas (billions of cubic feet)	**1 726.8**	**738.3**	**2 465.1**	2 031.1	669.8	2 700.9

	1990 Conventional Oil and NGLs (millions of barrels)	1990 Synthetic and Bitumen (millions of barrels)	1990 Natural Gas (billions of cubic feet)	1989 Conventional Oil and NGLs (millions of barrels)	1989 Synthetic and Bitumen (millions of barrels)	1989 Natural Gas (billions of cubic feet)
Balance, beginning of year	**221.1**	**212.6**	**2 700.9**	234.1	249.4	2 812.2
Revisions of previous estimates	**(2.3)**	**5.7**	**(171.1)**	8.4	(26.6)	33.2
Extension and discoveries	**2.6**	**–**	**82.7**	3.3	–	38.1
Improved recovery methods	**25.8**	**–**	**0.4**	3.2	–	–
Purchases	**19.7**	**–**	**94.6**	(7.8)	–	20.3
Sales	**(21.0)**	**–**	**(98.4)**	0.9	–	(34.2)
Production	**(19.0)**	**(10.7)**	**(144.0)**	(21.0)	(10.2)	(168.7)
Balance, end of year	**226.9**	**207.6**	**2 465.1**	221.1	212.6	2 700.9

Notes:
1. When booked, Hibernia will add at least 131 million barrels (before royalties) to Petro-Canada's proved oil reserves.
2. Reserve quantities in the Annual Report, excluding synthetic crude oil, are reported based on estimates consistent with the knowledge of the characteristics and extent of underlying productive formations at each year end, but are subject to upward or downward revisions as additional information regarding producing fields becomes available, as technology improves and as economic conditions change.
3. The above figures include Petro-Canada's 17 per cent interest in the synthetic crude oil reserves of Syncrude. These reserves are based on the demonstrated production capacity of the Syncrude plant calculated over the remaining term of the current operating permit to the year 2013. The Syncrude project is subject to a royalty agreement between the Province of Alberta and the Syncrude participants whereby the Province has the right to 50 per cent of Syncrude's deemed net profit. The Province has an option to convert its royalty to a 7.5 per cent gross overriding royalty. The net after royalty reserves of Syncrude are based on an estimated average royalty rate for the life of the project using current prices and operating costs.

Oil and Gas Landholdings (gross/net)

(millions of acres)

	1990 Developed	1990 Undeveloped	1990 Total	1989 Developed	1989 Undeveloped	1989 Total
Alberta	**3.3/1.3**	**3.4/1.6**	**6.7/2.9**	3.7/1.5	3.8/1.8	7.5/3.3
British Columbia	**0.8/0.5**	**1.1/0.7**	**1.9/1.2**	0.9/0.5	1.2/0.8	2.1/1.3
Saskatchewan and other	**0.3/0.1**	**0.6/0.4**	**0.9/0.5**	0.2/0.1	0.6/0.5	0.8/0.6
Frontier Canada	**-/-**	**14.1/11.1**	**14.1/11.1**	-/-	15.1/11.4	15.1/11.4
International	**-/-**	**17.9/9.9**	**17.9/9.9**	-/-	11.7/6.7	11.7/6.7
Total	**4.4/1.9**	**37.1/23.7**	**41.5/25.6**	4.8/2.1	32.4/21.2	37.2/23.3

Principal Reserve Locations

Conventional Oil

Field	% of proved reserves at December 31, 1990
Golden Lake, Saskatchewan	19
Valhalla, Alberta	10
Pembina, Alberta	8
Bellshill Lake, Alberta	7
Nipisi, Alberta	6
	50

Natural Gas

Field	% of reserves at December 31, 1990
Hanlan, Alberta	14
Yoyo, British Columbia	8
Medicine Hat, Alberta	5
Ricinus, Alberta	5
Laprise, British Columbia	4
Gilby, Alberta	4
Brazeau, Alberta	4
Whitecourt, Alberta	3
Hatton, Saskatchewan	3
Wildcat Hills, Alberta	3
	53

Principal Production Locations

Conventional Oil

Field	% of 1990 production
Bellshill Lake, Alberta	14
Valhalla, Alberta	9
Utikuma, Alberta	8
Nipisi, Alberta	6
Provost, Alberta	5
Pembina, Alberta	5
Brazeau, Alberta	5
	52

Natural Gas

Field	% of 1990 production
Hanlan, Alberta	14
Yoyo, British Columbia	12
Whitecourt, Alberta	7
Laprise, British Columbia	5
Clarke Lake, British Columbia	5
Medicine Hat, Alberta	4
Jedney, British Columbia	3
Kaybob South, Alberta	3
	53

Productive Wells (gross/net)[1]

	Crude Oil Wells	Natural Gas Wells	Total Wells
		at December 31, 1990	
Conventional			
– Western provinces	6 681/1 964	2 625/977	9 306/2 941
In situ bitumen	400/200	–/–	400/200

Note:
1. Of the wells shown, 188 gross (19 net) crude oil wells and 196 gross (59 net) natural gas wells have multiple completions. Wells with multiple completions are counted as one well.

Principal reserve and production locations in Western Canada

● Oil reserve and production locations	▲ Natural gas reserve and production locations	☐ Value centres
1 Valhalla	1 Clarke Lake	British Columbia
2 Utikuma	2 Yoyo	Northern Alberta
3 Nipisi	3 Laprise	Whitecourt
4 Brazeau	4 Jedney	West Pembina/Alberta Foothills
5 Pembina	5 Kaybob South	Conventional Heavy Oil (renamed Eastern in 1991)
6 Golden Lake	6 Whitecourt	
7 Bellshill Lake	7 Hanlan	
8 Provost	8 Brazeau	
	9 Gilby	
	10 Ricinus	
	11 Wildcat Hills	
	12 Medicine Hat	
	13 Hatton	

Refining and Supply Discussion

- Petro-Canada's refineries produce a full slate of petroleum products, including gasoline, aviation fuels, heating oils, heavy fuel oils, kerosene and stove oils.
- The Mississauga plant of the Lake Ontario refinery produces a wide range of lubricating oils and limited volumes of other petroleum products. The Montreal refinery produces in addition to petroleum products a limited quantity of petrochemical feedstocks and solvents. The Edmonton refinery has the capability to process 6 600 cubic metres per day of synthetic crude oil.
- Petro-Canada obtains its crude oil and other refinery feedstock requirements primarily from purchases in domestic markets. Petro-Canada's Western Canada upstream production represents 31 per cent of the Company's refinery requirements.
- Petro-Canada is party to a number of long-term processing agreements. Under these agreements, the Company refines crude oil on a fee basis for other industry participants or other refiners provide similar service to Petro-Canada.

Refining by Locations

	Average Daily Volume of Crude Oil Processed		Daily Rated Capacity[1,2] at December 31		Average Utilization Rate	
	1990	1989	**1990**	1989	**1990**	1989
	(thousands of cubic metres)				(per cent)	
Lake Ontario, Ontario	**15.2**	17.0	**19.4**	19.4	**78**	88
Edmonton, Alberta[3]	**13.9**	15.6	**18.4**	18.4	**76**	85
Montreal, Quebec	**12.2**	11.8	**13.9**	13.9	**88**	85
Taylor, British Columbia[4]	**2.3**	2.1	**2.5**	2.5	**92**	84
Total	**43.6**	46.5	**54.2**	54.2	**80**	86

Supply Information

	Average Daily Volume	
	1990	1989
	(thousands of cubic metres)	
Net domestic supply[5]	**36.1**	40.1
Net foreign purchases	**7.5**	6.4
Processed by Petro-Canada	**43.6**	46.5
Processed for others	**(12.4)**	(13.4)
Processed by others	**10.6**	10.6
Total Petro-Canada requirements	**41.8**	43.7

Notes:
1. Daily rated capacities are based on calendar days and definite specifications as to types of crude oil, the products to be obtained and the refinery processes required. Variations in these factors may result in actual capacities being higher or lower than rated capacities.
2. Crude oil processed at the refineries includes volumes processed by Petro-Canada for other companies.
3. In 1989 and 1990, the Edmonton refinery processed sufficient crude to supply the Port Moody, British Columbia, facility with 3 400 cubic metres per day of partially processed feedstocks.
4. To be closed July 1991.
5. Net domestic supply consists of Petro-Canada's net domestic production plus purchases of domestic crude oil less the Company's domestic and export sales of crude oil. In addition, it includes crude oil supplied by others for processing.

Five Year Financial and Operating Summary

(stated in millions of dollars, unless otherwise indicated)

Consolidated	1990	1989	1988	1987	1986
Summary of Earnings					
Revenue	$ 5 873	$ 5 026	$ 4 801	$ 5 079	$ 5 172
Expenses	5 526	4 955	4 798	4 767	4 934
	347	71	3	312	238
Provision for income taxes	166	51	47	179	172
Net earnings (loss) before dividends on redeemable preferred shares	181	20	(44)	133	66
Dividends on redeemable preferred shares	–	–	10	41	59
Net earnings (loss) after dividends on redeemable preferred shares	$ 181	$ 20	$ (54)	$ 92	$ 7
Summary of Statement of Changes in Financial Position					
Operating activities					
Cash flow from operations	$ 621	$ 452	$ 607	$ 767	$ 709
Other	(20)	(26)	(23)	(11)	(17)
(Increase) decrease in operating working capital	(307)	(22)	270	(173)	446
	294	404	854	583	1 138
Investing activities	(689)	(392)	(850)	(586)	(782)
Financing activities and dividends	404	(69)	72	104	(411)
Increase (decrease) in cash	$ 9	$ (57)	$ 76	$ 101	$ (55)
Summary of Balance Sheet					
Assets					
Current assets	$ 1 821	$ 1 557	$ 1 420	$ 1 676	$ 1 472
Property, plant and equipment, net	4 778	4 626	4 617	4 492	4 633
Investments and deferred charges	679	560	622	577	432
Total	$ 7 278	$ 6 743	$ 6 659	$ 6 745	$ 6 537
Liabilities and shareholder's equity					
Current liabilities					
Short-term debt	$ 705	$ 716	$ 974	$ 319	$ 13
Other current liabilities	1 177	1 220	1 050	1 124	1 200
Long-term debt	1 537	1 232	1 036	744	805
Deferred credits	191	231	211	189	198
Deferred income taxes	997	967	986	985	882
Redeemable preferred shares	–	–	–	831	922
	4 607	4 366	4 257	4 192	4 020
Shareholder's equity	2 671	2 377	2 402	2 553	2 517
Total	$ 7 278	$ 6 743	$ 6 659	$ 6 745	$ 6 537
Average Capital Employed	$ 5 812	$ 5 566	$ 5 615	$ 5 479	$ 5 445

Five Year Financial and Operating Summary

(stated in millions of dollars unless otherwise indicated)

	1990	1989	1988	1987	1986
Financial Indicators (per cent)					
Performance					
Cash flow return on capital employed	13.6	10.4	12.3	14.9	13.8
Return on capital employed	6.0	2.7	0.7	3.3	2.0
Return on equity	7.2	0.8	(2.2)	3.8	0.3
Liquidity and Leverage					
Current ratio (times)	1.0	0.8	0.7	1.2	1.2
Cash flow to debt	27.7	23.2	29.7	36.6	34.1
Interest coverage (times)					
– earnings basis	2.2	1.3	0.8	2.3	1.6
– cash flow basis	3.7	3.3	4.6	5.4	4.4
Debt to capital employed	36.7	35.3	35.8	35.3	35.7
Debt to debt plus equity	45.6	45.0	45.6	44.6	44.7
Expenditures on Property, Plant and Equipment and Exploration					
Resources division	$ 393	$ 343	$ 612	$ 340	$ 487
Products division	221	209	161	122	118
Corporate and other	29	25	29	29	20
	643	577	802	491	625
Petroleum Incentive Program grants	–	9	–	5	166
Total	$ 643	$ 568	$ 802	$ 486	$ 459
Acquisitions	$ 235	$ –	$ –	$ –	$ 301
Reinvestment Ratio	1.11	0.87	1.42	0.81	1.20
Employees (number at year end)					
Petro-Canada	6 353	6 468	7 373	7 204	7 740
ICG Propane Inc.	1 488	–	–	–	–
Other subsidiaries	1 965	2 329	2 345	2 102	1 482
Total	9 806	8 797	9 718	9 306	9 222

Resources Division

	1990	1989	1988	1987	1986
Annual Operating Revenues					
Crude oil and field natural gas liquids					
Conventional crude oil	$ 379	$ 356	$ 307	$ 413	$ 336
Synthetic and bitumen	275	207	175	211	180
Field natural gas liquids	66	48	46	57	50
	720	611	528	681	566
Natural gas	221	246	222	203	219
Sulphur	17	21	23	25	31
Natural gas liquids from straddle plants including ethane	200	167	152	145	192
Other	156	106	64	84	72
Total	$ 1 314	$ 1 151	$ 989	$ 1 138	$ 1 080

Five Year Financial and Operating Summary

(stated in millions of dollars unless otherwise indicated)

	1990	1989	1988	1987	1986
Earnings	$ 203	$ 89	$ (108)	$ 93	$ (51)
Cash Flow from Operations	$ 480	$ 374	$ 406	$ 566	$ 408
Expenditures on Property, Plant and Equipment and Exploration					
Exploration					
Frontier	$ 14	$ 7	$ 47	$ 36	$ 237
Western provinces	90	99	129	101	62
International	45	51	23	12	11
Development					
Frontier	15	5	7	5	8
Western provinces	201	133	265	107	104
International	–	8	3	–	1
Oil sands					
Syncrude	23	13	42	44	47
Other	5	27	96	35	17
	393	343	612	340	487
Petroleum Incentive Program grants	–	9	–	5	166
Total	$ 393	$ 334	$ 612	$ 335	$ 321
Daily Production (net, before royalties/after royalties)					
Crude oil (thousands of barrels)					
Conventional crude oil	52.0/42.9	59.1/48.5	63.2/51.0	63.5/50.7	63.5/50.5
Synthetic and bitumen	30.1/29.5	28.4/27.8	28.6/28.1	26.6/26.0	25.5/25.0
Field natural gas liquids	12.2/9.2	12.9/9.5	13.4/9.7	13.2/10.0	13.2/9.6
Total	94.3/81.6	100.4/85.8	105.2/88.8	103.3/86.7	102.2/85.1
Natural gas liquids production from straddle plants including ethane (thousands of barrels)	42.4/42.4	44.8/44.8	40.4/40.4	39.6/39.6	40.9/40.9
Natural gas (millions of cubic feet)					
including injectants (Note 3)	497.5	573.1	485.2	434.8	358.7
excluding injectants	484.0/394.7	556.4/448.4	471.5/382.1	424.9/342.9	354.8/283.6
Sulphur (thousands of tons)	1.1/0.9	1.0/0.8	1.0/0.8	0.9/0.8	0.8/0.7
Average sale prices					
Conventional crude oil, bitumen and field natural gas liquids ($ per barrel)	23.00	18.58	15.49	20.83	17.33
Natural gas ($ per thousand cubic feet)	1.53	1.48	1.60	1.62	2.11
Average lifting cost ($ per barrel of oil equivalent)	4.28	4.04	4.10	3.88	4.51
Proved Reserves (net, before royalties/after royalties)					
Crude oil and field natural gas liquids (millions of barrels)					
Conventional crude oil	223.2/188.7	227.6/185.5	248.2/196.8	236.6/187.5	248.7/194.8
Synthetic and bitumen	243.3/207.6	250.2/212.6	289.8/249.4	280.9/241.8	289.1/248.8
Field natural gas liquids	52.2/38.2	50.5/35.6	53.7/37.3	45.5/31.3	47.9/33.1
Total	518.7/434.5	528.3/433.7	591.7/483.5	563.0/460.6	585.7/476.7
Natural gas (trillions of cubic feet)	3.0/2.5	3.4/2.7	3.5/2.8	3.4/2.8	3.4/2.7
Sulphur (millions of tons)	6.2/5.3	5.8/4.9	6.2/5.2	5.2/4.3	3.4/2.8

Five Year Financial and Operating Summary

(stated in millions of dollars unless otherwise indicated)

	1990	1989	1988	1987	1986
Oil and Gas Landholdings (gross/net)					
(millions of acres)					
Canadian provinces	**9.5/4.6**	10.4/5.2	11.0/5.4	10.9/5.3	12.2/5.9
Frontier Canada	**14.1/11.1**	15.1/11.4	16.2/11.8	19.7/13.5	35.1/19.7
International	**17.9/9.9**	11.7/6.7	9.6/3.6	3.2/1.7	2.9/1.2
Total	**41.5/25.6**	37.2/23.3	36.8/20.8	33.8/20.5	50.2/26.8
Wells drilled (gross/net)					
Canadian provinces – exploration wells					
Oil	**3/1**	9/9	16/13	18/11	18/11
Natural gas	**8/6**	18/16	31/25	9/5	31/14
Dry	**14/12**	23/20	29/21	30/23	31/20
	25/19	50/45	76/59	57/39	80/45
Canadian provinces – development wells					
Oil	**67/24**	93/22	164/88	196/73	264/46
Natural gas	**83/28**	58/26	87/38	40/26	31/10
Oil sands	**-/-**	20/6	266/133	75/38	5/2
Dry	**7/4**	8/4	11/6	19/13	12/6
	157/56	179/58	528/265	330/150	312/64
Frontier Canada – exploration wells					
Oil	**-/-**	1/-	2/1	3/1	9/2
Natural gas	**-/-**	1/-	1/-	-/-	9/3
Dry	**3/2**	-/-	3/1	4/2	11/5
	3/2	2/-	6/2	7/3	29/10
International – exploration and development wells					
Oil	**1/1**	2/1	1/1	-/-	-/-
Natural gas	**-/-**	-/-	-/-	-/-	-/-
Dry	**9/4**	4/2	3/1	2/-	6/-
	10/5	6/3	4/2	2/-	6/-
Total	**195/82**	237/106	614/328	396/192	427/119

Products Division

	1990	1989	1988	1987	1986
Annual Operating Revenues					
Gasolines	**$ 2 395**	$ 2 117	$ 2 050	$ 2 240	$ 2 280
Distillates	**1 475**	1 303	1 284	1 384	1 549
Other including petrochemicals	**1 078**	1 022	911	837	759
Total	**$ 4 948**	$ 4 442	$ 4 245	$ 4 461	$ 4 588
Earnings	**$ 126**	$ 104	$ 102	$ 95	$ 115
Cash Flow from Operations	**$ 258**	$ 237	$ 230	$ 294	$ 306
Expenditures on Property, Plant and Equipment					
Refining	**$ 89**	$ 115	$ 82	$ 49	$ 61
Marketing	**73**	94	79	73	57
MTBE plant	**59**	–	–	–	–
Total	**$ 221**	$ 209	$ 161	$ 122	$ 118

Five Year Financial and Operating Summary

(stated in millions of dollars unless otherwise indicated)

	1990	1989	1988	1987	1986
Marketing					
Petroleum product sales					
(thousands of cubic metres per day)					
Gasolines	19.4	20.1	19.4	20.3	20.3
Distillates	15.2	15.8	16.1	16.7	16.2
Other including petrochemicals	8.1	8.5	8.3	8.6	7.9
Total	42.7	44.4	43.8	45.6	44.4
Average sale prices for petroleum					
products ($ per cubic metre)					
Gasolines	338	289	290	302	308
Distillates	266	226	218	227	262
Other including petrochemicals	365	329	301	267	263
Average of all products	317	274	266	268	283
Retail outlets at year end	3 205	3 295	3 429	3 677	3 844
Refining					
Refinery crude capacity at year end					
(thousands of cubic metres per day)	54.2	54.2	60.6	64.0	64.0
Crude oil processed by Petro-Canada					
(thousands of cubic metres per day)	43.6	46.5	48.5	48.4	47.2
Average refinery utilization (per cent) (Note 4)	80	86	77	76	74

ICG Propane Inc.

Revenue	$ 362
Earnings	5
Cash flow from operations	30
Expenditures on property, plant and equipment	16
Propane sales (millions of litres)	1 245

Notes:
1. Financial and operating results include the operations of the Edmonton refinery from April 1, 1986.
2. Certain reclassifications have been made to the figures previously reported to reflect subsequent changes in reporting presentation.
3. Before royalties.
4. Average refinery utilization takes into account, where applicable, changes in refinery crude capacity that occurred during the year.

Board of Directors

†***Wilbert (Bill) H. Hopper, O.C.**
Chairman
and Chief Executive Officer
Petro-Canada
Calgary, Alberta

†**James M. Stanford**
President
and Chief Operating Officer
Petro-Canada
Calgary, Alberta
(appointed April 1990)

†**Edward M. Lakusta**
President
and Chief Operating Officer
Petro-Canada
Calgary, Alberta
(retired April 1990)

†**Alfred E. Barroll**
President
A.E. Barroll Resource
Consultants Ltd.
Calgary, Alberta

H. Reuben Cohen, O.C., Q.C.
Barrister and Solicitor
Moncton, New Brunswick

Harbanse S. Doman
President and Chairman
of the Board
Doman Industries Limited
Duncan, British Columbia

Anne R. Dubin, Q.C.
Senior Partner
Tory, Tory, DesLauriers
and Binnington
Barristers and Solicitors
Toronto, Ontario

†**William McBurney Elliott, Q.C.**
Counsel
MacPherson, Leslie and Tyerman
Barristers and Solicitors
Regina, Saskatchewan

***Claude Fontaine**
Senior Partner
Ogilvy, Renault
Barristers and Solicitors
Montreal, Quebec

The Hon. William H. Jarvis, P.C., Q.C.
McCarthy Tétrault
Ottawa, Ontario
(appointed December 1990)

John H. Lundrigan
President
Lundrigan Consulting Services Limited
St. John's, Newfoundland

***Helen M. Meyer**
President
Meyer Corporate Valuations Ltd.
Toronto, Ontario

***Jocelyne Pelchat**
President
Pelchat International
Montreal, Quebec

†**David E. Read**
President
Read Restaurants Ltd.
Dartmouth, Nova Scotia

†**William W. Siebens**
President
Candor Investments Ltd.
Calgary, Alberta

***Arni C. Thorsteinson**
President
Shelter Canadian Holdings Limited
Winnipeg, Manitoba

Walter P. Twinn
Business Manager
Sawridge Indian Band
Slave Lake, Alberta
(resigned September 1990)

*Audit Committee member
†Executive Committee member

These directors served during 1990 on the Board of Petro-Canada Limited (formerly Petro-Canada).

The Board of Directors of Petro-Canada (formerly Petro-Canada Inc.) during 1990 consisted of executives of the Company. The Petro-Canada Public Participation Act provides for the appointment of a new board for Petro-Canada.

Senior Officers

Wilbert (Bill) H. Hopper, O.C.
Chairman
and Chief Executive Officer

James M. Stanford
President
and Chief Operating Officer
President
Petro-Canada Products Division

James Pantelidis
President
Petro-Canada Resources Division

Wesley R. Twiss
Senior Vice-President
and Chief Financial Officer


SEATED: BILL HOPPER. STANDING (LEFT TO RIGHT): JIM STANFORD, JIM PANTELIDIS, WESLEY TWISS

Petro-Canada
P.O. Box 2844
Calgary, Alberta
Canada T2P 3E3

Fax (403) 296-3030
Telex 03825753

General and media enquiries:
Public Affairs
(403) 296-5850

Investor and analyst enquiries:
Investor Relations
(403) 296-4000

Publié également en français

Supplementary Information

A supplementary booklet, containing information that may assist in further analysis of the Company's results, is available on request. The booklet contains audited balance sheets as at December 31, 1990 and 1989, and audited statements of earnings, retained earnings and changes in financial position for each of the five years in the period ended December 31, 1990. Certain additional information is provided, in formats commonly used for filing with the United States Securities and Exchange Commission, to facilitate comparisons.

Design:
Gottschalk+Ash International

Principal photography:
Bernard Bohn

Cover illustration:
Duff Ackerley,
based on a computer image
developed by Marilyn Thacker
from a map provided by the
Canada-Newfoundland
Offshore Petroleum Board.

Typesetting:
Centre Typographique

Printing:
MacDonald Printing

Printed on paper containing a minimum of 50 per cent recycled fibre, including a minimum of 10 per cent de-inked post-consumer waste. No varnish is used in printing. Once the glue binding is trimmed off, this paper can again be recycled.

Litho Canada

PETRO-CANADA

Petro-Canada
1991 Annual Report

Petro-Canada has joined the private sector

This year, with an Initial Public Offering, Petro-Canada welcomed more than 100 000 investors to direct participation in the Company's future

Petro-Canada is committed to enhancing shareholder value. To this end, Petro-Canada is pursuing these objectives:

- Significantly improve financial performance
- Rebalance the asset portfolio to enhance short and medium term cash flow while maintaining profitable growth opportunities
- Divest non-core and underperforming assets in order to focus on those business activities which have the greatest potential for adding value
- Fund future investments from operating cash flows and divestiture proceeds
- Reduce debt to increase financial strength and flexibility

Contents

Corporate Profile

Petro-Canada is the largest Canadian-owned oil and gas company, with assets of $6 billion and revenue of nearly $5 billion in 1991.

The Company is organized into two operating divisions and a small corporate staff. Petro-Canada Resources, the "upstream" business, explores for, produces and markets crude oil, natural gas, natural gas liquids and sulphur. The "downstream" business, Petro-Canada Products, refines crude oil and distributes and markets petroleum products and related goods and services. ICG Propane Inc., a wholly owned subsidiary, is one of Canada's two largest propane retailers.

Established in 1975 as a Crown corporation, Petro-Canada has evolved over time into a fully commercial company. On July 3, 1991, Petro-Canada completed its Initial Public Offering of common shares. Approximately 19.5 per cent of the Company is held by public shareholders. The balance is held by the Government of Canada as an investment.

Highlights

Financial	1991	1990	1989
Net earnings (loss) (millions of dollars)	(598)	176	16
– net loss per common share (dollars)	3.08		
Cash flow from operations (millions of dollars)	292	621	452
– cash flow per common share (dollars)	1.50		
Expenditures on property, plant and equipment and exploration (millions of dollars)	652	643	568
Cash flow return on capital employed (per cent)	7.3	13.6	10.4
Return on capital employed (per cent)	(8.5)	5.9	2.6
Return on equity (per cent)	(23.6)	7.2	0.7
Average capital employed (millions of dollars)	5 649	5 843	5 597
Shareholders' equity (millions of dollars)	2 493	2 582	2 293
Total debt (millions of dollars)	1 649	2 242	1 948

Operating	1991	1990	1989
Crude oil and field natural gas liquids production, net before royalties			
(thousands of barrels per day)	93	94	100
(thousands of cubic metres per day)	14.7	15.0	15.9
Natural gas production, net before royalties (millions of cubic feet per day)	524	498	573
(millions of cubic metres per day)	14.8	14.1	16.2
Proved reserves, net before royalties (millions of oil equivalent barrels)	880	1 040	1 106
(millions of oil equivalent cubic metres)	140	165	176
Crude oil processed (thousands of barrels per day)	261	274	292
(thousands of cubic metres per day)	41.4	43.6	46.5
Petroleum product sales (thousands of barrels per day)	260	269	279
(thousands of cubic metres per day)	41.3	42.7	44.4

Conversion Factors

To conform with common usage, imperial units of measurement are used in this report to describe exploration and production while metric units are used for refining and marketing.
Dollars are Canadian unless otherwise stated.

1 barrel	=	0.159 cubic metre	1 cubic metre	=	6.29 barrels
1 cubic foot (natural gas)	=	0.028 cubic metre	1 cubic metre (natural gas)	=	35.31 cubic feet
1 imperial gallon	=	4.55 litres	1 litre	=	0.22 imperial gallon
1 acre	=	0.405 hectare	1 hectare	=	2.47 acres
1 ton (long)	=	1.016 tonnes	1 tonne	=	0.984 ton (long)
1 mile	=	1.609 kilometres	1 kilometre	=	0.62 mile
1 barrel of oil	=	5 803 cubic feet of natural gas (energy equivalent)	1 cubic metre of oil	=	1 034 cubic metres of natural gas (energy equivalent)

Petro-Canada at a Glance

Business

Western Canada

- Explores for, produces and markets crude oil, natural gas, natural gas liquids and sulphur
- Accounts for about 5% of Canada's crude oil and 5% of its natural gas production
- Holds a large working interest in the Syncrude oil sands project
- Operates a major natural gas liquids extraction plant at Empress, Alberta
- Operates or has interests in several pipelines

Frontier Canada

- Explores for and develops offshore and northern petroleum resources
- Owns 25% of the oil discovered so far off the East Coast
- Holds a 25% working interest in the Hibernia oil development
- Will lead development of the Terra Nova oil field as operator and 44% interest holder

International

- Explores for and develops crude oil in selected countries
- Current key exploration areas are Myanmar, Vietnam (offshore) and Yemen

1991 Highlights

Western Canada

- Discovered natural gas at Murray River in British Columbia
- Brought gas fields on stream at Klua and North Bubbles in British Columbia
- Discovered light oil at Larne in Alberta
- Started construction of waterflood facilities at Golden Lake oil field in Saskatchewan
- Became operator of natural gas properties and processing plant at Hanlan, Alberta

Frontier Canada

- Began construction of the platform production facilities for the Hibernia oil development
- Agreed with co-owners on the optimal production system for Terra Nova

International

- High-graded portfolio to focus on the best prospects
- Sold or relinquished holdings in non-key countries
- Moved into the drilling phase in Myanmar and Vietnam
- Identified drilling prospects in Yemen

Industry Outlook

Western Canada

- No real growth expected in oil or gas prices in the near term
- Light/heavy crude oil price differential expected to remain high in 1992

Frontier Canada

- Frontier development will be an important source for medium and long term reserve additions
- Capital constraints will limit the pace of development

International

- The trend will continue for North American oil companies to devote a larger proportion of available resources to international exploration and development
- Increasing focus on countries where exploration and/or application of advanced technology has been limited

1992 Initiatives

Western Canada

- Continue asset rationalization through strategic divestments, acquisitions and swaps
- Achieve further operating efficiencies and cost reductions
- Pursue gas exploration through farmouts and joint ventures
- Maintain a reduced but strategic interest in oil sands

Frontier Canada

- Work with co-owners to attract a new Hibernia participant
- Continue efforts to divest a minority interest in Hibernia to reduce capital requirements

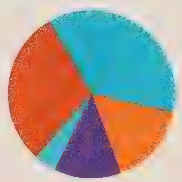
International

- Drill exploration wells in Vietnam, Myanmar and Yemen
- Farmout and joint venture in order to reduce capital commitments in the near term

Key 1991 Statistics

Western Canada

Crude oil production mix



- Conventional light 37%
- Conventional heavy 16%
- Field NGLs 13%
- Bitumen 4%
- Synthetic crude 30%

Frontier Canada

International

Products Division

Refining

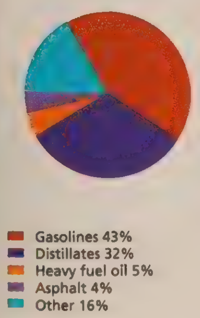
- Converts crude oil into a full range of refined products
- Major products are gasoline, diesel fuel, jet fuel, asphalt and heavy fuel oil
- Produces premium lubricants at Mississauga (part of the Lake Ontario refinery)
- Operates about 19% of Canada's refining capacity

- Integrated refining more effectively with other businesses to optimize performance of Strategic Business Units
- Reduced working capital requirements
- Closed a small, high-cost refinery at Taylor, British Columbia
- Divested interest in MTBE plant at Edmonton, Alberta

- Rationalization by the refining industry will reduce excess capacity
- Refiners may face significant capital expenditures if environmental standards similar to recent U.S. legislation are adopted

- Begin closing the Port Moody refinery and the fuel products units at Mississauga
- Pursue opportunities to divest or possibly joint venture the Montreal refinery and to joint venture the lubricants operation at Mississauga

Refinery production mix



Marketing

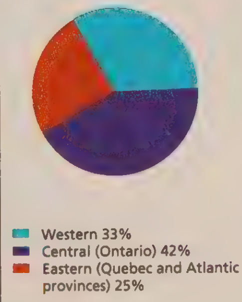
- Markets refined products through a nationwide network of wholesale and retail outlets
- Distributes products through 16 terminals and 2 pipelines
- Provides various product offerings including Certigard car care, convenience stores and car washes
- Ranks second in retail gasoline with a 19% market share

- Regional Strategic Business Units given greater authority and accountability for performance
- Local Unit Management (LUM) and Wholesale Marketer programs extended among retailers and wholesalers
- "Premium" asphalt launched commercially in Canada and U.S.

- Refined products demand is expected to remain weak in the near term
- Industry rationalization will begin to relieve excess marketing capacity

- Begin an extensive program to close or divest more than one third of retail and wholesale outlets
- Continue expansion of the LUM and Wholesale Marketer programs to improve operational efficiency

Refined product sales volume by region



Corporate and Other

ICG Propane

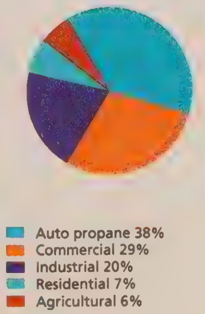
- Wholly owned subsidiary, acquired in 1990
- Markets propane for industrial, commercial, residential, farm and remote location markets
- Markets auto propane through a network of owner and dealer operated outlets from British Columbia to New Brunswick

- Confirmed position as Canada's leading auto propane retailer
- Significant cost reductions from organizational effectiveness programs
- Average sales volume per employee improved 3% over 1990

- Auto propane prospects remain dependent on conversion technology, taxation and relative pricing
- Propane will continue to compete effectively with other fuels, especially for high-volume users
- Growth in niche markets is likely to offset a small loss of volume due to the construction of a natural gas pipeline to Vancouver Island

- Extend quality service program throughout the organization
- Selectively expand into areas of geographic under-representation
- Continue research and development for new product applications

Propane sales volume by market segment



Investments and Other

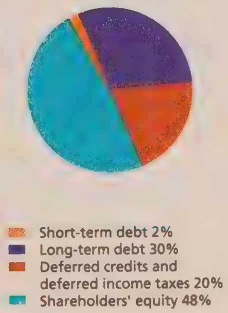
- Small corporate groups support divisional activities
- Finance and planning functions manage the Company's financial affairs
- Investments include 37% of Westcoast Energy Inc., 50% of the Petro-Canada Centre office complex in Calgary, and other smaller assets

- Raised net proceeds of $523 million from Initial Public Offering
- Reduced total debt by $593 million and interest charges by $75 million
- Received investment-grade credit ratings
- Refinanced U.S. $600 million of long-term debt

- Bank of Canada anti-inflation policy beginning to have effect
- Strong chance of significantly reduced inflation and interest rates
- Narrowing interest-rate spread with the United States could lead to weaker Canadian dollar

- Refinance more of the remaining government-backed debt
- Further reduce costs in corporate support groups

Capital structure



Chairman's Report

I would like to welcome all the new shareholders who have chosen to share in Petro-Canada's future.

This has been a momentous year for our Company, exciting yet at the same time the most challenging in my 15 years as Chief Executive Officer.

In 1991, Petro-Canada entered the private sector. Privatization became a reality on July 3. Petro-Canada concluded a treasury issue of 19.5 per cent of its common shares, for net proceeds of $523 million. With this new equity, the Company was able to pay down a good portion of its short-term debt, significantly reducing debt servicing costs and strengthening the balance sheet.

Unfortunately, our transition to the private sector took place in a year which saw the worst economic conditions in recent memory for the integrated oil and gas sector in Canada. During 1991, Petro-Canada and its competitors reported unprecedented losses.

Petro-Canada's Executive Council.
Seated: Bill Hopper, Chairman and Chief Executive Officer. Standing (l. to r.):
Jim Pantelidis (President, Products division);
Jim Stanford (President and Chief Operating Officer); Wesley Twiss (Senior Vice-President and Chief Financial Officer); Norm McIntyre (President, Resources division).

Price volatility due to Mideast crisis hit Canada hard

The heavy losses in the first half were primarily driven by the extraordinary events in the Persian Gulf. Crude oil prices rose sharply following Iraq's invasion of Kuwait in August 1990. In keeping with Canadian pricing practices, these cost-of-crude increases were not fully reflected in product prices for two to three months, until products made from high-cost crude reached markets.

Most analysts expected prices would rise even higher when hostilities began. Instead, crude oil prices dropped sharply when it became clear the war would be short. Over just two days in January, benchmark crude prices dropped about U.S. $13 per barrel – or 40 per cent – on world markets.

Petro-Canada and its competitors were left with large inventories of high-priced oil. Market prices for refined products in Canada slumped quickly, in large part due to cross-border competition, as U.S. prices immediately follow crude price movements, up or down. Canadian refiners were not able to recover the full cost of their crude oil inventories.

Commodity prices remain severely depressed

After the severe losses in the first half of 1991, downstream margins recovered somewhat in the summer, but declined again in the fourth quarter.

The recession has cut Canadian refined product demand 9 per cent since 1989. Fierce competition in Canada's overbuilt refining and marketing sector has prevented the integrated companies from earning an adequate return.

Oversupply and low demand due to the prolonged, severe recession have pushed prices down for almost every major commodity we produce. The price of oil today, in real terms, is lower than it was in 1974. Natural gas prices are the lowest in 13 years, and heavy oil

prices are substantially depressed in relation to light oil. Gasoline prices, net of taxes, are lower in real terms than in 1980 when unleaded gasoline was introduced. While the prices we receive for our commodities have remained low, the Consumer Price Index has more than tripled since 1974 and our costs of doing business have risen considerably.

Results dismal despite operating success

Petro-Canada's results are stark proof of the difficult situation the industry faced in 1991. Earnings were negative, even before unusual items, and cash flow of $292 million was less than half what we expected. Our cash flow return on capital employed was just 7.3 per cent.

These dismal results came despite considerable operating success. We brought our Klua gas field on stream just 30 months after discovery, an example of how our value centres are reducing cycle time to bring quick returns. We made an important gas discovery in British Columbia, and increased our production and sales of natural gas. In the downstream, we more than held our share of a highly competitive market.

Our asset rebalancing program made headway, with sales of non-core properties and strategic acquisitions. We also sold our interest in the MTBE plant under construction in Edmonton and agreed to sell a portion of our interest in the Syncrude oil sands project. Construction began on the Hibernia offshore oil development; we are seeking to sell a portion of our interest in this capital-intensive project.

Steps taken during 1991 to improve performance

Early in 1991, the Products division cut nearly 300 positions and shut down a small, high-cost refinery. In the third quarter, we scaled back capital expenditures and took further steps to cut operating and overhead costs.

We trimmed 1991 expenditures on property, plant and equipment and exploration from a planned $835 million to $652 million. General and administrative expenses decreased by $24 million. We broadened our efforts to rebalance our asset portfolio and sell underperforming assets, raising $311 million in cash proceeds. We drew new money into our exploration program through farmouts and joint ventures. We reduced our debt by $593 million.

Tough action will be taken to resize the business

We will not ask our shareholders to wait for the business environment to improve. Oil and natural gas prices will likely remain low in 1992. Product demand is unlikely to recover to pre-recessionary levels in the near term. We cannot keep doing the same things and expect different results.

Late in 1991, we assessed and compared all of Petro-Canada's assets in terms of their potential for adding to shareholder value. On January 23, 1992, after evaluating the results of this study, the Company announced it will restructure its downstream business to cut excess capacity and reduce costs. Petro-Canada will mothball units at two refineries, offer parts of its refining business for sale or possible joint venture and close or sell one third of its marketing outlets.

We will live within our means. The Company will limit capital expenditures to its capacity to fund them from cash flow and dispositions. To reduce capital commitments, we are working to sell portions of our interests in frontier and other major projects. We will continue to sell non-strategic assets and invest the proceeds to improve cash flow and earnings in the short and medium term.

Company has long-term strength

Petro-Canada has shared in the decline of oil stocks on Canadian exchanges. But I am certain our Company will come through these tough times to prosper in the years ahead.

We have great opportunities. With international exploration and 25 per cent of the discovered oil off Canada's East Coast, we are better placed than any other Canadian company to add new light oil reserves as the Western Canadian basin declines. We are finding and developing natural gas, and will benefit as prices rise in the years ahead. And, once we have streamlined our downstream business, an efficient refining and marketing network will contribute to our success.

Petro-Canada's employees showed their faith in our future when 85 per cent of them chose to buy shares in the Company. Their energy and experience will see us through this difficult period and move us on to future success.

I would like to express my appreciation for the confidence in Petro-Canada's future that our shareholders demonstrated in fully subscribing to our Initial Public Offering, and to thank our Board of Directors for their diligence, guidance and support in this challenging year.

We are in a tough business environment. But we have taken action that will result in a smaller but stronger Petro-Canada. Our goal is to build shareholder value as a highly focused, competitive and profitable Company.

W.H. Hopper
Chairman and
Chief Executive Officer

March 23, 1992

Into the Private Sector

The passage of the Petro-Canada Public Participation Act and the Company's Initial Public Offering moved Petro-Canada into the private sector in 1991.

What privatization means for the Company

Petro-Canada is now a fully commercial enterprise, competing on an equal footing with others in the industry.

Petro-Canada is no longer required to undertake activities to further public policy objectives, as it was in its early days as a Crown corporation.

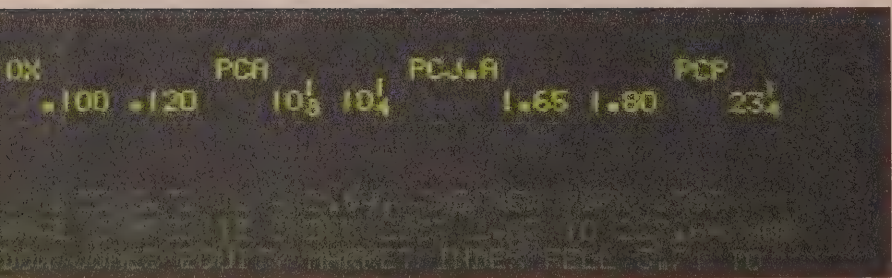
The Company is now focused on building shareholder value. The Board of Directors must make decisions in the interests of all shareholders.

The Company will continue to offer service to the public in both official languages as appropriate, and will continue to adhere to the intent of employment equity legislation.

Some of Petro-Canada's long-term debt is still backed by the Government of Canada, a facility for which the Company pays a fee. Petro-Canada has agreed to refinance this debt under its own credit by January 1995.

Impact of the IPO

The treasury issue of 42 004 784 common shares at a price of $13.00 was fully subscribed. The Initial Public Offering generated net proceeds of $523 million, which were used to reduce Petro-Canada's short-term debt and lower its debt servicing costs.



Petro-Canada's shares are trading under the symbol "PCA" on Canadian stock exchanges.

The Petro-Canada Public Participation Act
Under the Petro-Canada Public Participation Act, Petro-Canada Limited, the former holding corporation previously known as Petro-Canada, continues as a Crown corporation. The new Petro-Canada, the former operating subsidiary previously named Petro-Canada Inc., was privatized on July 3, 1991.

The privatized Petro-Canada comprises virtually all the operating activities, businesses, and assets of the original Petro-Canada group.

The Act limits individual ownership of Petro-Canada to 10 per cent and foreign ownership to 25 per cent of the publicly held shares.

While a few restrictions are placed on Petro-Canada by the legislation – such as maintaining its head office in Calgary – these are not viewed by the Company as impediments to its operations or performance.

With the passage of the Act, Petro-Canada is no longer subject to the Crown corporation legal framework.

Milestones

February 20, 1990
The Minister of Finance announced in his budget speech the Government of Canada's decision to privatize Petro-Canada.

February 21, 1990
The Minister of State for Privatization announced that, following legislative and regulatory steps, Petro-Canada's Board of Directors would be asked to offer a treasury issue of about 15 per cent of the Company.

October 1, 1990
The privatization legislation, *Bill C-84*, was presented to the Parliament of Canada for debate.

February 1, 1991
Following approval by the House of Commons and the Senate, Bill C-84 gained Royal Assent. The legislation is known as the *Petro-Canada Public Participation Act*.

March 19, 1991
The Government of Canada appointed a Board of Directors for the new company.

May 9, 1991
Petro-Canada filed a preliminary prospectus with securities regulators across Canada.

May-June, 1991
The Company agreed with the Government of Canada on the restructuring of its debt and obtained provisional credit ratings from four debt-rating agencies.

May-June, 1991
Petro-Canada conducted an investor roadshow in 13 cities in Canada, six cities in Europe and three cities in the United States.

June 18, 1991
Petro-Canada filed its final prospectus.

June 25, 1991
Petro-Canada's stock began trading on all Canadian exchanges on an ''if, as and when issued'' basis under the symbol ''PCA''.

July 3, 1991
The Initial Public Offering, one of the largest in Canadian history, formally closed and the stock was officially listed on Canadian exchanges.

October 31, 1991
Petro-Canada completed the refinancing of U.S. $600 million of government-backed long-term debt.

February 3, 1992
Petro-Canada's stock was added to the Toronto Stock Exchange's TSE 300 Index. The stock became one of only five in the integrated oils sub-group.

May 5, 1992
The Company will hold its first annual meeting of shareholders in Calgary.

Who Owns Petro-Canada Shares

At the time of the Initial Public Offering, 19.5 per cent of the Company's stock was purchased by more than 100 000 shareholders.

As of February 1992, about 16 per cent of the publicly held shares were held outside Canada, principally in Europe and the United States.

More than 85 per cent of Petro-Canada's employees are shareholders.

Petro-Canada has more shareholders than any other Canadian oil and gas company. It has one of the largest numbers of shareholders among publicly traded companies in Canada.

Sale of Government Shares

At year end, the Government of Canada retained 80.5 per cent of the Company's shares. The Government's shares are held by the Minister of State (Finance and Privatization).

The Government has stated its intention to sell, over time, its remaining shares in Petro-Canada.

In the meantime, the Government has committed to hold its shares as an investor and not to intervene in the management of the Company.

Until July 3, 1994, or until the Government of Canada's holdings fall below 50 per cent of outstanding common shares, whichever is sooner, the Government of Canada must approve any issue of treasury shares by the Company.

Communicating with Investors

Petro-Canada is committed to comprehensive and timely disclosure to the investment community, its shareholders and the broader public.

An Investor Relations department has been set up to facilitate communications. A new section, Information for Shareholders and Investors, is found on page 63 of this report.

Resources Division

The Resources division reported earnings from operations of $31 million. Including a provision for a $95 million after-tax writedown in the carrying value of the Company's interest in the Syncrude oil sands project, the net loss was $64 million. Cash flow was $303 million. Lower prices for crude oil and natural gas were largely responsible for these results. The division's financial performance is discussed fully in Management's Discussion and Analysis (page 24).

Natural gas production increased 5 per cent over 1990 volumes, reflecting increased direct sales to U.S. and Canadian markets. Production of crude oil and field natural gas liquids declined 2 per cent from 1990, due to property sales and depletion of conventional fields in Western Canada.

Resolution of the Persian Gulf crisis early in 1991 brought a return to low prices for the division's crude oil production, particularly for heavy oil. Prices for natural gas continued to weaken, due in part to intense competition among producers.

As these conditions showed no sign of improving by mid-year, management scaled back investment activity to a level that could be sustained with available funds. The division reduced total 1991 expenditures on property, plant and equipment and exploration to $341 million from a planned $460 million. Reducing operating costs and overhead were identified as major priorities.

Strategies bring focus in difficult environment

The division is pursuing several strategies to improve its returns. Creating a better balance between long-term, capital intensive projects and shorter-term, cash-generating activities is a clear priority. Petro-Canada is seeking to divest portions of its interests in the Hibernia and Terra Nova offshore oil discoveries and the Syncrude oil sands project. Western Canada assets are being rationalized to focus on the operations with the highest potential for adding value. Gas and light oil prospects will be pursued, in part through farmouts and other means of bringing new funds into play. Farmouts are also being sought to sustain international exploration.

Petro-Canada believes the natural gas business will continue to grow and the Company will therefore maintain its strategic emphasis on gas exploration, development and marketing. The potential for significant light oil reserve additions in Western Canada, however, is limited. The Company therefore continues to look to its substantial offshore discoveries and to international prospects for light oil additions in the medium to long term.

Total quality management through continuous improvement is being progressively implemented throughout the division. A process has been put in place to capture and implement employees' cost reduction and efficiency ideas.

Financial

(millions of dollars)	**1991**	1990	1989
Earnings (loss)			
From operations	**31**	199	84
Writedown of investment in Syncrude	**(95)**	–	–
	(64)	199	84
Cash flow from operations	**303**	480	374

Operating	**1991**	1990	1989
Crude oil and field natural gas liquids production, net before royalties (thousands of barrels per day)	**93**	94	100
Natural gas production, net before royalties (millions of cubic feet per day)	**524**	498	573

Petro-Canada will maintain its strategic emphasis on natural gas exploration, development and marketing

With 25 per cent of the oil discovered off the East Coast, Petro-Canada has opportunities to offset declining production in Western Canada.

Natural gas strategy yields results

Petro-Canada made a deep gas discovery at Murray River in the Grizzly Valley of British Columbia. The Company has a 50 per cent working interest and is the operator. The initial well in this highly prospective area added 18 billion cubic feet of proved reserves. Flow tests indicate an initial capability of 40 million cubic feet per day. Petro-Canada has more than 350 square kilometres of leases in the surrounding area and plans to continue exploration and timely development for tie-in to the Pine River gas plant expansion in 1994.

Development drilling at North Bubbles and Jedney, 130 kilometres northwest of Fort St. John, British Columbia, added 24 billion cubic feet of proved reserves. Production began late in the year.

In early November, Petro-Canada brought on stream its 100 per cent owned Klua gas field, 40 kilometres southeast of Fort Nelson, British Columbia. Production and pipeline facilities were completed and the field began production just two and a half years after the initial discovery, at a sales rate of about 30 million cubic feet per day. Two successful wells were also drilled during the year, increasing proved reserves by 25 billion cubic feet.

The natural gas marketing group was able to partly offset the decline in natural gas prices by increasing sales, particularly direct sales to industrial users and local distribution companies. In 1991, about 21 per cent of natural gas deliveries were to end users, 57 per cent to shippers and 22 per cent to Petro-Canada facilities. Arrangements were also concluded to sell gas to cogeneration customers in Ontario, California and the Pacific Northwest, commencing in 1992.

The Company's natural gas liquids straddle plant at Empress, Alberta, continues to be a significant contributor to cash flow. Following a recurrence of turbine failures in 1991, Petro-Canada plans to improve the reliability of the plant by replacing the turbines in 1992 and 1993.

In December, Petro-Canada invested in a joint exploration company to conduct a $20 million exploration program in British Columbia and Western Alberta. The new company, in which Petro-Canada holds a 43 per cent interest, anticipates drilling three wells in 1992.

Oil exploration and development proceeds

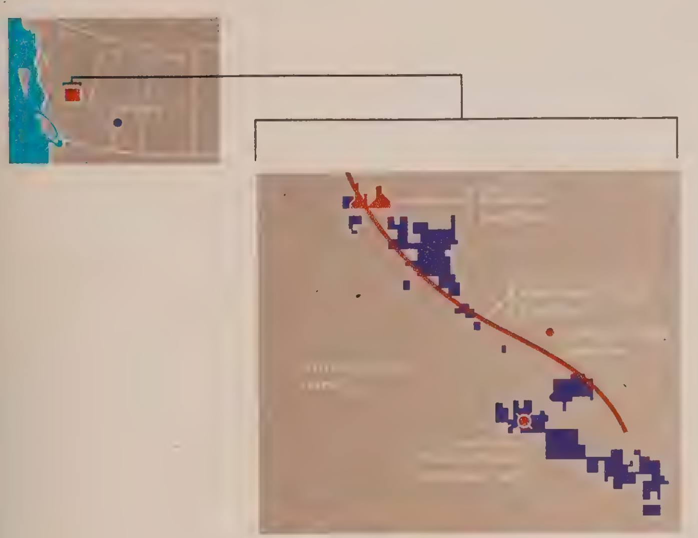
An attractive light oil discovery was made during the year in northern Alberta. Discovery of a new pool at Larne, 100 kilometres northwest of High Level, added 500 000 barrels to the Company's proved reserves.

At the Golden Lake, Saskatchewan, heavy oil field, facilities are under construction for a waterflood program that will augment production beginning in the fourth quarter of 1992. The waterflood program employs the same technology used to raise daily production at the Company's Salt Lake heavy oil field from 790 barrels in 1989 to 1 750 barrels in 1991. Daily production at Golden Lake averaged 2 200 barrels toward the end of 1991.

Progress made in asset rebalancing

A two-pronged program begun in 1989 achieved major successes during 1991. Property sales captured value from non-strategic or underperforming

Recompleting a well for injection at the Golden Lake oil field, where waterflood is expected to augment production late in 1992.



The Murray River deep gas discovery added 18 billion cubic feet to Petro-Canada's proved reserves.

assets. To increase ownership in strategic areas, the division made selective acquisitions.

At year end, Petro-Canada held interests in 330 producing fields in Western Canada, down from about 500 at the start of 1989. By the end of 1993, further asset rebalancing should leave the Company with interests in less than 200 producing fields but operatorship of more than 80 per cent of its conventional production. The division is also rationalizing its holdings of oil sands leases, retaining only prime properties.

Proceeds from the sale of non-strategic conventional oil and gas properties were $115 million in 1991. Acquisitions of oil and gas reserves amounted to $23 million and included the purchase of additional working interests in seven fields.

Late in the year, Petro-Canada completed a transaction that gave it operatorship of a major natural gas complex in Alberta. The Hanlan-Robb natural gas properties, 200 kilometres west of Edmonton, include numerous fields, a natural gas plant and associated facilities. One of the fields supplying gas to the plant is Petro-Canada's largest producing gas property.

The net effect of the program in 1991 was to reduce proved reserves of oil and field natural gas liquids by 19 million barrels and gas by 95 billion cubic feet. Daily production was lowered by 5 000 barrels of oil and field natural gas liquids and 21 million cubic feet of gas.

In the fourth quarter of 1991, the Company signed a letter of intent to sell a 5 per cent interest in Syncrude to Mitsubishi Oil Company Ltd. for $132.5 million. Petro-Canada could receive up to an additional $50 million within a ten-year period if cash flow exceeds a predetermined level. The sale is expected to be completed in late March 1992, leaving Petro-Canada with a 12 per cent ownership. The Company had earlier written down its investment in the project to better reflect market value.

Petro-Canada is now operator of the Hanlan-Robb natural gas complex in Alberta, which includes the Company's largest producing gas field.

Frontier development begins

Construction has begun on the platform production facilities for the Hibernia offshore oil field. Petro-Canada has a 25 per cent interest in the project. The Company's share of 1991 consortium costs was $62 million. In February 1992, Gulf Canada Resources Ltd. announced it would withdraw from the project. The remaining co-owners have slowed down construction and are pursuing available options to allow continuation of the project.

In 1991, Petro-Canada, as operator of the Terra Nova oil field, reached agreement with the other interest holders on a floating system as the preferred option for production of the reserves.

In view of capital constraints, Petro-Canada is seeking to divest minority interests in key frontier projects, including Hibernia and Terra Nova.

International activities focused in key countries

The Company has narrowed its international exploration focus to its most prospective light oil plays – in Myanmar, Vietnam and Yemen. Landholdings were sold or relinquished in Pakistan, Ecuador, Malaysia and Papua New Guinea.

In Myanmar, Petro-Canada began drilling its first Company-operated well on Block E in November. A farmout arrangement was subsequently concluded which lowered the Company's interest in the block from 70 to 50 per cent. The drilling is expected to be completed in March 1992. Petro-Canada is also a 30 per cent participant in partner-operated Block F, where a 1991 exploration well did not yield commercial hydrocarbons.

Offshore Vietnam, where the Company has a 50 per cent interest and is the operator for Blocks 3, 12 and 20, the first well drilled was dry and abandoned. Petro-Canada plans a second well in the second quarter of 1992.

In Yemen, where the Company has a 35 per cent interest and operatorship of the Habrut block, Petro-Canada proceeded with seismic mapping in readiness for drilling in mid-1992.

Products Division

The Products division lost $109 million from operations in 1991. After an unusual item relating to restructuring and reorganization, the net loss was $488 million. The division's financial performance is discussed fully in Management's Discussion and Analysis (page 25).

Petro-Canada's refined product sales declined 3 per cent from 1990, although total sales by the industry dropped 6 per cent. Refinery utilization declined to 74 per cent, primarily due to reduced demand.

The downstream industry faced an unusually difficult business environment in 1991. The effects of extremely volatile crude prices in late 1990 and early 1991, compounded by a sharp decline in demand for petroleum products due to the recession, caused earnings to plummet across the industry.

In mid-January, events in the Persian Gulf triggered an unexpected sharp drop in world crude prices. Cross-border competition and other factors forced Canadian product prices down before refiners could recover the full cost of their high-priced crude inventories. As a result, Petro-Canada and other Canadian integrated companies suffered serious losses in the first half of the year.

Margins recovered somewhat in the third quarter, bringing a return to positive earnings. However, the fundamentals of the Canadian market remained poor, with substantial overcapacity in both refining and marketing. Product demand continued to slump in the unexpectedly prolonged recession. In the fourth quarter, continued intense competition again produced a loss.

Unacceptable losses required decisive action

The division took steps early in the year to restrain spending and reduce costs. A reorganization cut nearly 300 positions and eliminated much low-value-added activity. In response to the poor results of the first six months, expenditures on property, plant and equipment were cut from a planned $344 million to $287 million.

In July, the Company closed its small refinery at Taylor, British Columbia. The area is now supplied from the lower-cost Edmonton refinery, improving its utilization. Portions of the Taylor assets were sold for net proceeds of $13 million.

With losses recurring in the fourth quarter, it became clear these steps were insufficient. Decisive action was needed to enable the Products division to consistently perform well despite a business environment that is likely to remain difficult. In particular, action was needed to address the excess capacity in Canada's overbuilt refining and marketing networks.

Financial
(millions of dollars)

	1991	1990	1989
Earnings (loss)			
From operations	(109)	125	105
Restructure and reorganization	(379)	–	–
	(488)	125	105
Cash flow from operations	15	258	237

Operating

	1991	1990	1989
Petroleum product sales (thousands of cubic metres per day)	41.3	42.7	44.4
Crude oil processed by Petro-Canada (thousands of cubic metres per day)	41.4	43.6	46.5
Average refinery utilization (per cent)	74	80	86

Rationalization plan announced

Late in 1991, the Company launched a rigorous analysis to determine and compare the capacity of its assets and activities to add to shareholder value. Based on that work, Petro-Canada announced in January 1992 that it will sharply rationalize its refining and marketing operations.

By mid-1993, Petro-Canada will convert its refinery at Port Moody, British Columbia, into a receipt and handling facility to accept refined products from its Edmonton refinery. The Port Moody refining units will be mothballed.

The fuel products units at the Lake Ontario refinery's Mississauga plant will be taken out of operation and the plant reconfigured to an asphalt and lubricants manufacturing and packaging operation. This change will increase the efficiency of the overall Ontario refining operation.

When completed, the changes at the Port Moody and Lake Ontario facilities will reduce Petro-Canada's refining capacity by 12 500 cubic metres a day, improving refinery utilization by bringing supply into better balance with demand.

Petro-Canada is also seeking to sell or possibly joint venture its Montreal refinery and will pursue joint venture options for its lubricants operation.

In addition, the Company intends over the next two to three years to close or divest more than one third of its marketing network of 3 150 retail and 338 wholesale outlets.

In view of these plans, the Company has made provision for closing, mothballing and clean-up costs and has written down the book value of these assets, recording a charge against 1991 earnings of $369 million after tax.

During 1991, as part of its asset rebalancing strategy, the Company sold its interest in Alberta Envirofuels Inc. in two separate transactions. The joint venture has nearly completed a plant in Edmonton to produce MTBE, a gasoline additive. Petro-Canada decided to sell its interest to realize value from this non-core project and direct the funds to other uses.

Strategic business units established

An improved operating structure was implemented in April to contribute to better results. A strategic review, completed in January 1991, confirmed the value of the division's regional organization in terms of customer focus and adaptability to market conditions. However, it also showed an opportunity to gain competitive advantage by fully capturing the value of being an integrated business.

Cross-functional teams, such as this Western Region team dealing with diesel issues, take an integrated approach to business improvement.

The reorganization established the Eastern, Central and Western regions as strategic business units (SBUs), with the full span of control to effectively manage an integrated business. The division's head office is now focused on strategy and inter-SBU synergies. Most support functions were transferred to regional control. Lubricants was set up as a national SBU, based on its specialized product line and service.

SBUs took action to improve performance

In each SBU, business integration teams focused on short-term optimization. The teams developed better ways to optimize the contributions of supply, refining and marketing operations to overall SBU performance while managing risk in volatile conditions. One important result was the reduction of inventories by 327 000 cubic metres at year-end from a year earlier, reducing the working capital that would otherwise have been tied up in inventory by $73 million.

Each region took steps to increase refinery reliability. For example, Eastern region continued reinstrumentation and modernization work at the Montreal refinery. Three out of six major areas in the plant have now been upgraded, and the plant has achieved a significant improvement in reliability.

The lubricants SBU is implementing strategic programs to increase sales in foreign and domestic markets. Petro-Canada's pure HydroTreated base oil and products are increasingly sold in those market segments willing to pay a premium for their quality. Export sales continue to grow, and by year-end distribution agreements were in place for 30 countries.

Refinery utilization will be improved by reducing capacity and focusing on the most efficient operations

Rationalization will give Petro-Canada a more efficient marketing network

Western Region
Central Region
Eastern Region

Research and development activity is focused on lubricant development and assessment of new technologies for application within Petro-Canada. Recent successes include development and marketing of environmentally friendly lubricants and defoamers for the forestry industry. "Premium" asphalt, a value-added, high-margin product for use on heavy-load roadways, has gained market acceptance through test paving. Manufacturing facilities for Premium asphalt were completed at the Mississauga plant, and nearly 2 million litres were sold in 1991 in this early stage of commercialization.

Innovative means used to cut costs, enhance quality

A commitment to continuous improvement is being demonstrated throughout the division. Employee ideas are being gathered and implemented in all SBUs, contributing to efficiency, cost reduction and value creation. In Central region, for example, employees generated nearly 700 ideas. Continuous improvement teams have implemented many of them, making an important contribution to the $15 million trimmed from the region's expected operating costs in 1991.

Enhancements are also being made in management and business processes, so the business can be run more effectively.

The Company is pursuing strategic alliances or "partnering" with key suppliers. Both Petro-Canada and the suppliers use continuous improvement processes to reduce costs and manage for total quality in this non-traditional, cooperative approach to procurement. Western region, for example, has partnered with four bulk carriers for distribution, where 14 carriers were used in 1990; long-term agreements have brought consistent quality service and significant savings.

Service groups have been challenged to demonstrate that they add value. For example, the Petro-Canada credit card has traditionally been seen simply as a cost. In 1991, the retail credit card operation was redefined as a business. Costs are charged to the marketing regions, who are now able to weigh those costs against the value of the credit card as a customer benefit. Credit personnel are finding innovative ways to reduce costs and add to profitability.

Rollout of marketing strategies continued

The division continued to implement strategies launched in recent years.

Local Unit Management (LUM) was extended to more than half the retail network during 1991, following successful tests. LUM is a process for achieving retailing excellence, in which associates and Petro-Canada personnel focus their joint efforts on operational proficiency at each site. Associates are empowered to take full ownership and responsibility for the continuous improvement of their businesses.

By year-end, 93 wholesale outlets had been converted to the Wholesale Marketer operating mode. Like LUM, Wholesale Marketer empowers and supports the associate in providing better value to customers.

ICG Propane

ICG Propane Inc., a wholly owned subsidiary, contributed $35 million to Petro-Canada's cash flow from operations in 1991, an increase of $5 million from 1990. Net earnings were $3 million, down $2 million from 1990.

Propane sales amounted to 1.2 billion litres, about the same as 1990. In Eastern Canada, sales were below 1990, largely due to the recession and warmer than normal weather. In Western Canada, growth was achieved despite the impact of the recession and the introduction of natural gas to Vancouver Island. The exclusive propane supply arrangement for Turbo service stations, together with the addition of Petro-Canada service stations to the network, contributed to this increase and has made ICG Propane the leading auto-propane retailer in Canada.

Organizational effectiveness programs initiated in 1990 had full impact in 1991; marketing and general and administrative expenses were lower than in 1990 by $3 million or 3 per cent, after absorbing inflation. The average sales volume per employee improved 3 per cent over 1990. Expenditures on property, plant and equipment of $17 million were focused on new site installations and vehicle replacements.

ICG Propane continued to research new applications for propane and develop new markets, including international opportunities. The company is also part of a consortium which is assisting in the development of propane infrastructure for two African countries.

Local Unit Management enrols all staff in improving the retail business: customer service attendants discuss their promotion ideas with dealer and LUM facilitators.

Corporate Responsibility

Dual-line systems reduce emissions during fuel deliveries at Vancouver-area outlets; the red line draws vapour back into the truck so hydrocarbons can be recovered instead of being released into the air.

Petro-Canada's commitment to corporate responsibility is in no way diminished by the year's unfavourable results. The Company views its performance and reputation as a responsible corporate citizen as a fundamental component of business and financial success.

Supporting Canadian communities

- In 1991, Petro-Canada contributed nearly $3 million to about 900 organizations through its local and national donations programs.
- Recipients included 115 United Way campaigns, health and social service organizations, educational institutions, environmental groups and arts and cultural societies.
- The Company was instrumental in creating the Alberta Ecotrust Foundation and securing donations for the fund. This is an innovative partnership of corporations and environmental groups that will fund local environmental projects in Alberta.
- Petro-Canada raised $1.9 million for the Olympic Torch Legacy Fund through retail promotions in 1991. Since 1988, $5.6 million has been contributed and 332 amateur athletes and 37 coaches have received scholarships.

Benefiting the Canadian economy

- At year end, Petro-Canada employed 6 213 Canadians directly, 1 405 in ICG Propane and another 1 906 through other subsidiaries.
- Over the year, Petro-Canada purchased goods and services from some 18 000 suppliers, pumping $1.8 billion into the Canadian economy and supporting jobs and businesses across Canada.
- Petro-Canada is (and always has been) fully taxable on the same basis as any other company. It paid $67 million in federal, provincial and municipal taxes other than income taxes in 1991, and $106 million in provincial royalties. In addition, the Company collected more than $2.3 billion in taxes for governments mainly through its sales of refined oil products.

A responsible employer

- Petro-Canada is committed to providing a healthy and safe workplace. Occupational health centres, professional staff and employee counselling programs support this commitment.
- There were 45 lost-time accidents in 1991, down from 73 in 1990. A Managed Rehabilitation Care Program introduced in 1991 has reduced costs while enabling employees who have been disabled by injury or illness to return to the workforce more quickly.
- The Company maintains a smoke-free workplace, conducts workplace safety training and demands careful adherence to job site safety standards.
- Petro-Canada operates in both official languages and implements employment equity initiatives, particularly for visible minorities, aboriginals, women and people with disabilities.

Caring for the environment

Through its actions and its contributions, Petro-Canada is working to improve environmental protection. A strengthened policy was developed this year to guide employees in protecting the environment and to clearly affirm the responsibility of senior management for effective implementation. The new policy, and some examples of initiatives to support it, are presented on the facing page.

Environmental Protection Policy

Environmental protection is a fundamental Petro-Canada value. The Corporation recognizes that every employee has a vital role to play in achieving environmental protection. Senior management will lead in the implementation of this policy. Petro-Canada's commitment will be incorporated into business activities through the following guiding principles. Petro-Canada will:

- ensure our operations comply with government legislation, corporate policy and applicable industry standards concerning the protection of the environment and the public
- determine, evaluate and mitigate the environmental impacts of our business during project planning, implementation, operation and decommissioning
- ensure that appropriate waste and emissions management programs are developed and implemented
- respond to emergencies in a prompt and effective manner
- ensure that all employees and others engaged on our behalf are aware of the need, informed of the requirements and trained to protect the environment
- use energy and other resources efficiently in our operations
- support research on the environmental effects of our products, processes and waste materials
- deal openly and fairly with members of the public regarding our activities
- support its employees, involved in legal proceedings which result from their employment, to the full extent it considers reasonable

Divisional presidents and vice-presidents are responsible for developing specific operational procedures and standards which are consistent with this policy. Petro-Canada expects its suppliers, partners and business associates to have compatible environmental procedures and values.

Corporate status reports will be presented regularly to Executive Council and the Board of Directors.

The President and Chief Operating Officer is accountable for the maintenance, regular review and interpretation of this policy.

February 1992

Petro-Canada employs environmental professionals across the Company to help achieve the policy's objectives. Their work includes a regular program of inspections, assessments and audits.

High priority is given to reducing and safely managing waste and emissions. In 1991, a pilot project at Quebec City retail outlets collected 80 000 plastic lubricants containers from customers for recycling. A cross-divisional task force completed an inventory of Petro-Canada-generated greenhouse gases and is working on recommendations for action.

The latest in a series of Company-wide environmental seminars was a video-conference, with President Jim Stanford presenting a leadership statement on the environment, health and safety. Publications for employees regularly address environmental issues.

Petro-Canada participates in research by industry associations on topics from the handling of volatile organic compounds to the treatment of contaminated soils and groundwater.

In 1991, spending on environmental protection totalled $50 million of capital expenditures and $73 million of expenses; 48 per cent was for Resources, 52 per cent was for Products. Underground tank upgrades and site clean-ups were the largest items. So far, 8 570 tanks out of a planned 9 760 have been replaced or upgraded in a multi-year program to prevent leaks. Petro-Canada systematically identifies and tracks the financial and strategic impacts of emerging environmental issues.

Petro-Canada participates in 38 local, regional and international spill cooperatives, and in 1991 completed an external audit of its oil spill response capability. Petro-Canada maintains emergency response plans for all operating facilities with regular training exercises for responders.

The Company has adopted an environment-friendly workplace program aimed at reducing waste, saving energy and increasing recycling. The environmental performance of paper suppliers was a factor in awarding the 1991 paper supply contract. A national marketing promotion featured 100-per-cent recycled garbage bags.

Community meetings are held from time to time with respect to most Company facilities; joint Petro-Canada/community committees work to resolve issues at the Lake Ontario refinery and in Northern Alberta. To communicate environmental awareness, an employee-driven "green team" in Calgary hosted tree planting and river clean-up projects during the year.

Management's Discussion and Analysis

The Company's business activities constitute two operating divisions and a corporate segment for purposes of financial reporting. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements on pages 33 to 48.

Results of Operations

Petro-Canada's results are significantly influenced by the business environment, in particular crude oil and natural gas prices and demand for natural gas and refined products.

Business Conditions in 1991

The year 1991 was one of the worst in the history of the Canadian oil and gas industry.

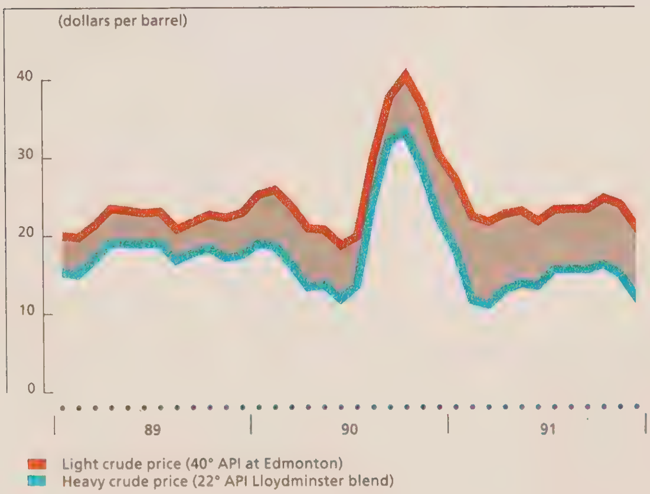
The price of crude oil on world markets, which largely determines the results of the Company's Resources division, declined rapidly following the start of the war in the Persian Gulf. Prices per barrel for the benchmark West Texas Intermediate crude oil reached a high of U.S. $32.00 immediately before the outbreak of hostilities in January and fell to U.S. $17.91 on February 22, averaging U.S. $21.52 in 1991. The differential between light and heavy crude oil prices reached a record level, averaging $8.54 per barrel, further reducing oil industry profitability.

Natural gas prices fell significantly in 1991, reflecting continuing surplus supplies in the United States and Canada. The Alberta plant-gate natural gas price averaged $1.30 per thousand cubic feet in 1991, compared to $1.60 in 1990 and $1.61 in 1989. The British Columbia wellhead gas price averaged $1.20, $1.31 and $1.32 per thousand cubic feet for the same periods. Overall, industry sales volumes of natural gas were approximately 6 per cent higher than 1990 levels.

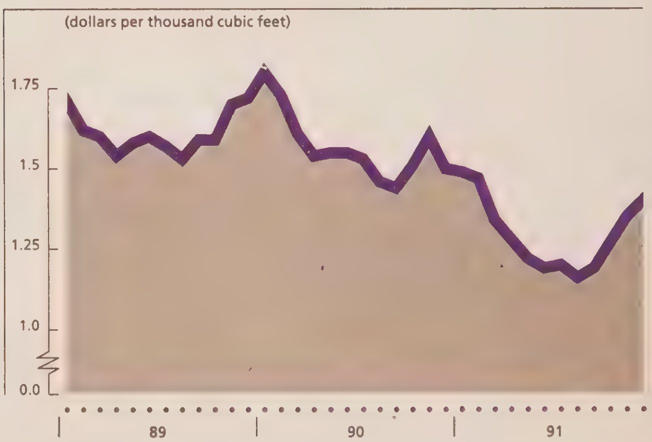
The Canada-U.S. exchange rate continued to appreciate, further reducing the Canadian dollar price for crude oil. The exchange rate averaged 87.3 cents, its highest level since 1978.

The results of the Products division are affected by demand for refined products, local market competition, crude oil and refined product prices, and refinery utilization. The sharply increased volatility of crude oil prices, combined with the traditional lag in adjusting refined product prices and the impact of significant price differentials between Canadian product and imports from the United States, led to extreme variability in industry refined product margins, particularly in the first half of 1991. While demand for refined petroleum products dropped sharply in the early 1980s, the industry experienced a gradual increase in demand from 1986 to 1989. The onset of the recession in the Canadian economy in mid-1990 depressed industry domestic sales of refined products by 6.2 per cent in 1991 on top of a reduction of 2.7 per cent in 1990, particularly affecting sales volumes in Ontario. Decreased demand has led to a fall in refinery utilization. Competition in

Light/heavy crude oil price differential



Natural gas prices[1]



[1]Based on industry average of Alberta plant-gate prices.
Source: Canadian Natural Gas Focus, Brent Friedenberg Associates Ltd.

the retail market has been intense, with steady growth of regional and independent marketers during the last five years and increased imports of refined products from the United States. Major environmental initiatives, resulting in new product standards, have required large capital and operating expenditures. Petro-Canada expects these environmental expenditures to continue to increase.

Outlook for 1992

The price of West Texas Intermediate crude oil is anticipated to continue in the range of U.S. $18 to $22 per barrel in 1992. Low growth in world oil consumption, reflecting slow global economic growth, combined with gradually increasing Kuwaiti production and the prospect of impending Iraqi exports, are expected to maintain downward pressure on prices. The differential between light and heavy crude prices is expected to remain high.

Natural gas prices are increasingly dependent on energy markets in the United States. In response to continuing low prices and the opening of new export outlets, such as the Iroquois pipeline to the northeastern United States, domestic and export sales are anticipated to continue expanding during 1992. However, intense competition for natural gas markets, arising from persistent oversupply, is expected to keep prices low. As U.S. demand for natural gas increases and the supply surplus dissipates, the Company anticipates that the price for Canadian natural gas will rise, although pipeline capacity constraints in the early 1990s, pending completion of proposed new pipelines, may limit deliveries to the U.S. market.

It is anticipated that increases in domestic sales of refined petroleum products will lag behind the modest economic recovery projected for 1992 and refined product sales will likely experience minimal growth. Less volatile prices should help return refined product margins, which fell sharply in 1991, to historical averages. Rationalization plans announced by Petro-Canada and other companies will likely have minimal impact on refined product margins in 1992 but should help improve the industry environment thereafter as the excess capacity in refining and marketing is reduced.

Canadian refined product demand

(billions of litres per year)

Source: Statistics Canada.

Sensitivities affecting pre-tax cash flow from operations

Factor	1991 Average	Increase	Approximate increase (decrease) in pre-tax cash flow from operations (millions of dollars)[1]
Resources division			
W.T.I. benchmark crude oil price	U.S. $21.52 per barrel	U.S. $1.00 per barrel	$23
Price received for natural gas	$1.39 per thousand cubic feet	$0.10 per thousand cubic feet	14
Production of conventional crude oil	48 500 barrels per day	1 000 barrels per day	6
Production of natural gas	524 million cubic feet per day	10 million cubic feet per day	4
Canadian dollar/U.S. dollar exchange rate	$0.87	$0.01	(6)
Products division[2]			
Average sale price of gasoline[3]	$0.28 per litre	$0.01 per litre	72
Crude oil and product purchases	$192.37 per cubic metre	$1.00 per cubic metre	(15)
Petroleum product operating margin (loss)[4]	(0.1) cents per litre	0.1 cents per litre	16

[1] The impact of a change in one factor may be compounded or offset by changes in the factors noted and in other factors. This table does not consider the impact of any interrelationship between the factors. The application of these factors may not necessarily lead to an accurate prediction of future results of operations.
[2] Impacts related to the Products division are independent of those related to the Resources division.
[3] Average sale price of gasoline does not include the Goods and Services Tax, federal excise taxes and provincial motor fuel taxes.
[4] Operating earnings before depreciation and amortization, unusual item and income taxes.

Consolidated Results

The Company's consolidated revenue in 1991 was $4 961 million, a decrease of 16 per cent from 1990, due in part to the removal of the Federal Sales Tax (FST), which was included in revenue prior to 1991. Before unusual items there was a consolidated loss of $143 million, a reversal from net earnings of $176 million in 1990. The consolidated net loss, after unusual items, was $598 million. The pre-tax unusual items consisted of a provision of $655 million for the Products division restructuring and reorganization, a $138 million write-down of the Company's investment in the Syncrude oil sands project and a $23 million gain on retirement of long-term debt. Reduced refined product margins due to the high-cost crude oil in inventory at the end of 1990 and intensely competitive product pricing, coupled with lower prices for crude oil and natural gas, were the principal factors contributing to the loss before unusual items. Gains from asset disposals amounted to $8 million in 1991, compared to $29 million in 1990.

Petro-Canada has announced a plan to rationalize its Products division operations across Canada to improve future profitability. As a result, the Company wrote down, in the fourth quarter of 1991, the book value of certain refining and marketing assets and has provided for expenses to be incurred in connection with the rationalization. In the aggregate, the provision totalled $655 million before tax and $379 million after tax.

The rationalization plan was based on a comprehensive analysis of projected business conditions and the Company's competitive position. The severe drop in refined products demand, particularly in 1991, has increased excess refining capacity in all regions of Canada and reduced throughputs and revenues in wholesale and retail marketing facilities. Accordingly, the Company plans to mothball and convert its Port Moody refinery in British Columbia to a products receipt and handling facility and to take out of operation the fuel products units at its Lake Ontario Mississauga plant. These measures will reduce the Company's daily refining capacity by 12 500 cubic metres. In addition, Petro-Canada is pursuing the sale or possible joint venture of its Montreal refining operations. The Company is also embarking on a country-wide program of rationalizing its marketing assets, which when completed will result in the closure or divestment of more than one-third of its marketing network of 3 150 retail and 338 wholesale outlets.

In October, the Company signed a letter of intent to sell a 5 per cent interest in the Syncrude oil sands project for $132.5 million. Based on discussions leading up to this transaction and on market conditions, Petro-Canada wrote down the carrying amount of its interest in the Syncrude project by $138 million before tax. Upon completion of the sale in late March 1992, Petro-Canada will own 12 per cent of the Syncrude project. Part of this remaining interest is for sale, although market conditions make the timing and extent of any further sale uncertain.

Petro-Canada prepaid U.S. $600 million of debt under the terms of an agreement to restructure its long-term indebtedness to Petro-Canada Limited (the former parent of the Company). This resulted in a pre-tax gain of $23 million.

The cost of crude oil and product purchases rose slightly to $2 516 million. Overall, general and administrative expenses and producing, refining and marketing costs increased by less than 1 per cent to $1 854 million, thereby retaining the savings achieved in 1990 in addition to absorbing most of the inflationary cost increases.

Exploration expenses remained virtually unchanged from 1990 levels at $113 million, while depreciation, depletion and amortization charges increased by 9 per cent to $407 million.

On January 1, 1991, the federal Goods and Services Tax (GST) replaced the Federal Sales Tax (FST). GST, which

Consolidated Financial Results

(millions of dollars)	1991	1990	1989
Revenue	4 961	5 873	5 026
Earnings (loss) from operations	(143)	176	70
Unusual items:			
Restructure and reorganization	(379)	–	(54)
Writedown of investment in Syncrude	(95)	–	–
Gain on retirement of long-term debt	19	–	–
Net earnings (loss)	(598)	176	16
Net loss per common share (dollars)	3.08	–	–
Cash flow from operations	292	621	452
Cash flow from operations per common share (dollars)	1.50	–	–
Return on capital employed (per cent)	(8.5)	5.9	2.6
Cash flow return on capital employed (per cent)	7.3	13.6	10.4

is imposed at the point of sale, is excluded from the Company's revenue and expenses, while FST was included in both. This change accounted for a $363 million reduction in taxes other than income taxes in 1991 compared to the previous year. As FST was also included in operating revenue during 1990, this change had no impact on net earnings in 1991. See Note 5 to the Consolidated Financial Statements.

Interest expense decreased $75 million in 1991 over 1990 due to a net decrease in total debt of $593 million, resulting primarily from the application of proceeds from the Company's Initial Public Offering of common shares, and lower interest rates.

As a result of the loss in 1991, there was a provision for recovery of income taxes of $371 million, compared to an income tax provision of $163 million in 1990.

The Company's 1990 revenue on a consolidated basis rose 17 per cent from 1989 to $5 873 million, reflecting higher sales prices and the inclusion, for the first time, of revenues of ICG Propane. High prices were offset in part by lower sales of refined products, crude oil and natural gas. Consolidated net earnings were $176 million, compared to $16 million in 1989 after an unusual charge of $92 million ($54 million after-tax) relating to a reorganization and staff reduction program.

Included in net earnings were $29 million in gains on disposals of assets, up from $25 million in the previous year.

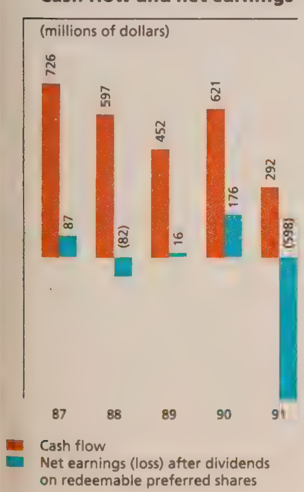
Earnings from the Resources division more than doubled, primarily as a result of the highest average crude oil price since 1985. The resulting increase in supply costs to the Products division was recovered through higher product prices. However, a significant portion of the high-cost supply was held in inventory at year end. Improved margins were the main contributor to the increase in Products division earnings. The cost of crude oil and product purchases rose 27 per cent or $524 million, primarily as a result of higher crude oil costs and the inclusion of ICG Propane's cost of sales of $210 million.

During 1990, Petro-Canada realized substantial savings in overhead and operating expenses. These savings were attributable to the 1989 internal reorganization and staff reduction program. Offsetting these savings were marketing and general and administrative expenses of ICG Propane, included for the first time, totalling $109 million and increases in costs, due largely to inflation. Costs associated with a high number of maintenance shutdowns at the Company's major refineries, unplanned repairs and higher fuel costs overshadowed decreases in other refining and producing expenses. A drop in depreciation, depletion and amortization charges more than offset higher exploration expenses. Federal sales and other taxes rose, mainly due to higher rates of tax on gasoline and higher refined product prices.

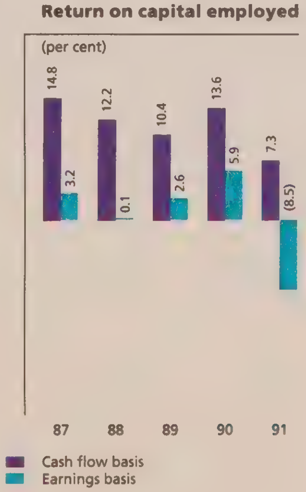
Interest expense was up $56 million in 1990 over 1989 due to higher interest rates and a net increase in total debt of $294 million, resulting from the acquisition of ICG Propane and the financing of other investment activities.

Income taxes rose $114 million in 1990 as a result of the $274 million increase in pre-tax earnings. The effective rate of income taxes dropped to 48.1 per cent from 75.4 per cent in 1989, reflecting the proportionately larger impact of non-deductible expenses included in 1989 pre-tax earnings. During 1990, the Company recorded a prior period adjustment as a result of income tax reassessments and related interest applicable to 1983 and proposed reassessments for other years prior to 1990. The cumulative effect of this charge to prior years was $173 million.

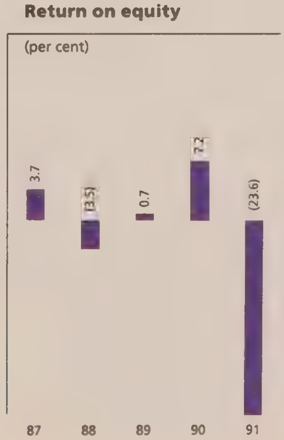
Cash flow and net earnings



Return on capital employed



Return on equity



Resources Division

Revenue from the Resources division was $1 069 million in 1991, a decrease of 19 per cent from 1990. Earnings before an unusual item were $31 million in 1991, compared with $199 million in 1990. After the Syncrude writedown, the net loss for 1991 was $64 million. In 1991, gains on asset disposals were nil, while in 1990 they amounted to $33 million.

The most significant factors leading to the decrease in net earnings were the lower prices received by the Company for crude oil and natural gas. While prices for West Texas Intermediate crude oil fell by 12 per cent, the Company's average sale price for crude oil and field natural gas liquids fell by 20 per cent to $19.21 per barrel. This was primarily due to the widening gap between light and heavy crude oil prices. Natural gas prices received by the Company fell by 9 per cent to $1.39 per thousand cubic feet, reflecting lower industry prices.

Lower crude oil prices and production volumes, together with a stronger Canadian/U.S. dollar exchange rate, were mainly responsible for the revenue decrease of $245 million. Revenue from natural gas sales declined slightly to $219 million. The effect of lower natural gas prices was partially offset by a 5 per cent increase in natural gas production. Revenue from natural gas liquids marketing, extraction plants and other operations declined by $47 million to $229 million, mainly as a result of lower prices and lower volumes caused by turbine failures at the Company's Empress natural gas liquids extraction plant.

Expenses in the Resources division included the cost of sales associated with natural gas liquids marketing and extraction plant operations, which fell $31 million, driven by lower prices on purchases of natural gas liquids and natural gas feedstock. Producing and general and administrative expenses increased by $26 million, primarily due to higher costs associated with maintaining production from mature fields and increased maintenance expenses related to the turbine failures at Empress.

The increase in depreciation, depletion and amortization charges amounting to $25 million was largely due to a change in the basis of measurement of reserves to comply with U.S. Securities and Exchange Commission requirements.

Income taxes for the Resources division were $28 million, net of a recovery of $43 million related to the Syncrude writedown, compared to $175 million in 1990.

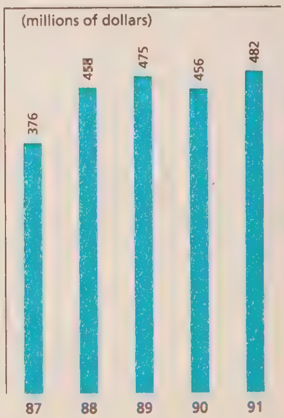
Revenue in the Resources division was $1 314 million in 1990, an increase of 14 per cent from 1989. Net earnings increased from $84 million to $199 million. This improvement was due to a number of factors. Average sale prices for crude oil, bitumen and field natural gas liquids increased 24 per cent over 1989. Volumes dropped 6 per cent, largely as a result of naturally declining production and the sale of producing properties. Gains on asset disposals contributed $33 million, up from $23 million in 1989.

Higher crude oil prices, partially offset by lower production volumes and a stronger Canadian/U.S. dollar exchange rate, contributed $109 million to the revenue increase. Revenue from natural gas sales declined by $25 million, mainly because of a drop in production volumes of 13 per cent. This drop was caused primarily by price-related provincial export restrictions on British Columbia production and final delivery in 1989 of take or pay volumes under a major pipeline contract. Natural reservoir declines and reduced volumes taken by the pipeline companies were also factors. Sale prices for natural gas, averaging $1.53 per thousand cubic feet, were up slightly over 1989. Revenue from natural gas liquids marketing, extraction plants and other operations improved by $59 million, mainly as a result of higher prices.

Resources division results
(millions of dollars)

	1991	1990	1989
Revenue including inter-segment sales	1 069	1 314	1 151
Earnings from operations	31	199	84
Writedown of investment in Syncrude	(95)	–	–
Net earnings (loss)	(64)	199	84
Cash flow from operations	303	480	374
Return on capital employed (per cent)	(2.7)	8.0	3.3
Cash flow return on capital employed (per cent)	12.8	19.3	14.7

Resources division producing and general and administrative expenses



Expenses in the Resources division included the cost of sales associated with natural gas liquids marketing and extraction plant operations, which rose $29 million, driven by higher prices on purchases of natural gas liquids. Producing and general and administrative expenses decreased by $19 million, primarily the result of programs to control and reduce costs.

The reduction in depreciation, depletion and amortization charges amounting to $57 million was attributable to lower upstream production in 1990 and certain oil and gas property writedowns recorded in 1989. Somewhat higher exploration expenses were incurred in 1990 due to increased drilling, geophysical and geological expenses.

Income taxes for the Resources division rose $82 million to a total of $175 million on increased pre-tax earnings of $374 million, up from pre-tax earnings of $177 million in 1989. Resources division income taxes were provided at an effective rate of 46.8 per cent, compared to 52.5 per cent in 1989, as non-deductible items had a proportionately smaller impact on taxable earnings in 1990.

Products Division

Revenue from the Products division in 1991 was $4 193 million, compared to $4 948 in 1990. Excluding an unusual item, there was a loss of $109 million in 1991, compared to net earnings of $125 million in 1990. After providing for restructuring and reorganization charges, the division's net loss for the year was $488 million.

The pre-tax operating loss was 0.1 cents per litre, compared to a profit of 2.4 cents per litre in 1990. The principal factor contributing to the loss in 1991 was the Company's inability to recover the high cost of crude oil in inventory at the end of 1990. While the division's revenue fell by almost $400 million to $4.2 billion, after adjustment for the removal of the Federal Sales Tax, crude oil and product purchase costs were virtually unchanged at $2.5 billion. Factors contributing to this were increased competition, due to reduced demand for refined products resulting from the recession in the Canadian economy, and competition from imported products.

Petro-Canada uses the "first-in, first-out" or "FIFO" method of inventory valuation to determine the cost of finished product sales and to draw down crude oil inventory. Since most of the Company's crude oil is supplied from Western Canada and sold in central Canadian markets, there is a 60 to 90 day delay before purchased crude oil is sold as refined product. In contrast, U.S. refiners follow the "last-in, first-out" or "LIFO" method of inventory valuation, which permits refined product prices to reflect replacement costs without the delay prevalent in the Canadian market. With an open border permitting access on both sides to refined products at the wholesale level, these contrasting methods of inventory costing have an impact on Canadian product pricing.

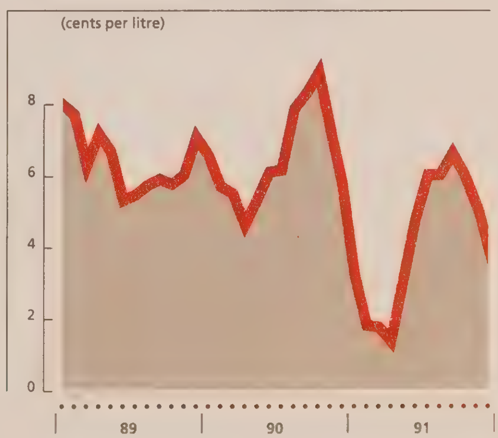
A large proportion of the crude oil refined and sold by Petro-Canada in the first half of 1991 was purchased when crude oil prices were significantly higher in the days and months preceding the outbreak of the Gulf War. Inventory levels at the beginning of the year were also higher than usual, to hedge against possible supply disruptions and further price increases at the approach of the Gulf War. Lower product demand, due in part to the recession, resulted in high-cost inventory being drawn down more slowly than anticipated. Intense competition, particularly from less costly imported products in 1991, prevented any substantial restoration of refined product margins.

Refining and marketing and general and administrative expenses fell by $19 million in 1991 to $1 265 million. Depreciation and amortization charges were up $7 million to $162 million.

Products division results
(millions of dollars)

	1991	1990	1989
Revenue including inter-segment sales	4 193	4 948	4 442
Earnings (loss) from operations	(109)	125	105
Restructure and reorganization	(379)	–	–
Net earnings (loss)	(488)	125	105
Cash flow from operations	15	258	237
Return on capital employed (per cent)	(18.9)	4.3	3.8
Cash flow return on capital employed (per cent)	0.6	8.8	8.6

Products division gross margins



Taxes other than income taxes were down $365 million, primarily as a result of the replacement of FST with GST. Provision for the recovery of income taxes in 1991 amounted to $344 million, compared to an income tax provision of $95 million in 1990. Income taxes were provided at the rate of 41.3 per cent, down from 43.2 per cent in 1990.

Revenue from the Products division was $4 948 million in 1990, up 11 per cent from 1989, due to crude oil cost-driven price increases of 16 per cent, partially countered by a decline in sales volumes of approximately 4 per cent. Most of the decline in volume resulted from the recession in the Canadian economy. A contributing factor was the closure of marginal facilities.

Operating earnings increased 14 per cent to 2.4 cents per litre from 2.1 cents per litre in 1989. This increase was primarily due to the low cost of crude oil in inventory prior to Iraq's invasion of Kuwait and substantial savings in overhead and operating expenses as a result of the internal reorganization program. Net earnings were $125 million, 19 per cent higher than in 1989.

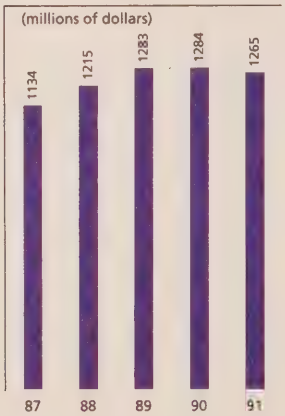
Crude oil and product purchase costs were up 18 per cent in 1990 to $2 880 million. Refining and marketing costs increased by $33 million, primarily due to a high number of refinery shutdowns during 1990 for maintenance and repair and higher fuel costs. These cost increases were offset by savings of $32 million in general and administrative expenses related to rationalization and efficiency measures. Federal sales and other taxes were up $38 million as a result of higher rates of tax on gasoline and higher product prices. Depreciation and amortization charges increased slightly. Income taxes for the Products division rose $6 million to a total of $95 million on increased pre-tax earnings of $220 million. Income taxes were provided at a rate of 43.2 per cent, down from 45.9 per cent in 1989.

Corporate and Other

Revenue from Corporate and Other activities, including ICG Propane, totalled $382 million in 1991, a decrease of 12 per cent from 1990. The loss for the segment, before the gain on retirement of long-term debt, was $65 million, compared to a net loss of $148 million in 1990.

Net earnings from ICG Propane were $3 million in 1991, compared with $5 million a year earlier. Cash flow from operations was $35 million, up $5 million from 1990.

Products division refining and marketing and general and administrative expenses



The improvement in 1991 over 1990 arose mainly from a $75 million reduction in interest expense and from the reduced deferral of inter-segment profits on crude oil produced by Petro-Canada and included in year-end inventory, as a result of the lower crude oil prices in the fourth quarter of 1991 compared to the fourth quarter of 1990.

Corporate and Other revenue rose by $360 million to $433 million in 1990 over 1989 with the acquisition of ICG Propane. The segment net loss decreased by $25 million to $148 million.

Net earnings from ICG Propane were $5 million after amortization of the non-tax-deductible premium over book value of net assets acquired.

The reduced net loss in 1990 arose from a $92 million saving linked to the non-recurrence of the 1989 unusual charge associated with the internal reorganization program. This saving was offset by an increase in interest expense of $56 million due to higher interest rates and an increase in average debt levels. The pre-tax segment loss, excluding ICG Propane, was $41 million lower, resulting in a reduction in recovery of income taxes of $21 million.

Accounting Changes

Effective January 1, 1991, the Company retroactively adopted the new recommendations of the Canadian Institute of Chartered Accountants on future removal and site restoration costs. This change did not have a significant impact on 1991 net earnings. Retained earnings as at January 1, 1991, were reduced by $89 million and the prior years' financial statements were restated. See Note 3 to the Consolidated Financial Statements.

Recent Developments

On February 4, 1992, one of the other joint venture participants announced it would withdraw from the Hibernia project. The remaining participants are pursuing alternatives to deal with the consequences of this withdrawal.

On February 7, 1992, Petro-Canada announced it has signed a letter of intent to sell its 50 per cent ownership in the Wolf Lake oil sands project. The Company had previously written down the carrying value of its assets at Wolf Lake and the sale is not expected to have any negative impact on either cash flow or earnings in 1992.

Corporate and Other results
(millions of dollars)

	ICG Propane			Corporate			Total		
	1991	1990	1989	**1991**	1990	1989	**1991**	1990	1989
Revenue	**328**	362	–	**54**	71	73	**382**	433	73
Earnings (loss) from operations	**3**	5	–	**(68)**	(153)	(119)	**(65)**	(148)	(119)
Unusual items:									
Gain on retirement of long-term debt	**–**	–	–	**19**	–	–	**19**	–	–
Restructure and reorganization	**–**	–	–	**–**	–	(54)	**–**	–	(54)
Net earnings (loss)	**3**	5	–	**(49)**	(153)	(173)	**(46)**	(148)	(173)
Cash flow from (used in) operations	**35**	30	–	**(61)**	(147)	(159)	**(26)**	(117)	(159)

Liquidity and Capital Resources

Operating Activities

Petro-Canada has relied principally upon cash from operating activities, supplemented by short-term and long-term debt financing, to fund its cash requirements. Short-term debt is used to fund working capital requirements and to provide bridge financing. As a Crown corporation, Petro-Canada did not access public equity markets to raise capital for its activities prior to July 3, 1991.

Cash flow from operations in 1991 was $292 million, a decrease of 53 per cent compared to 1990, resulting primarily from lower earnings. Cash flow from operations was $621 million in 1990, representing an increase of 37 per cent over 1989, due largely to higher earnings.

Petro-Canada's operating working capital decreased $108 million in 1991, after current accruals of $58 million relating to unusual items, to $473 million. Significant decreases in accounts receivable and inventories due to the drop in the price of crude oil in 1991 were partially offset by decreases in accounts payable and income taxes payable. Cash generated from operating activities increased to $382 million, an increase of $88 million from 1990, because of the decrease in operating working capital compared with the increase in 1990, offset by lower cash flow from operations.

Petro-Canada's operating working capital increased by $307 million in 1990 to $639 million, due in part to the effects of significantly higher oil prices on the carrying value of crude oil and the refined product inventories, accounts receivable and accounts payable. Other factors included a year-over-year reduction in income taxes payable and in advances owing to the former parent company. The increase in operating working capital would have been higher except for the sale of $212 million of accounts receivable to a third party. Because of the increase in operating working capital requirements, cash generated from operating activities fell to $294 million in 1990, a drop of $110 million from 1989.

Investing Activities

Investing activities in 1991 totalled $300 million, compared to $689 million in 1990 and $392 million in 1989. Expenditures in 1990 included $235 million for the acquisition of ICG Propane Inc.

Expenditures on property, plant and equipment and exploration totalled $652 million in 1991, up $9 million over 1990. The Resources division accounted for 52 per cent of the outlay in 1991, compared to 61 per cent in 1990 and 59 per cent in 1989. Expenditures for the Products division and Corporate and Other accounted for 48 per cent in 1991, 39 per cent in 1990 and 41 per cent in 1989.

Consistent with the Company's strategy, direct capital and exploration expenditures in the Resources division during the past three years have focused on exploration and development in the western Canadian provinces, international exploration and the Hibernia offshore project.

Products division expenditures on refining property, plant and equipment have concentrated in recent years on reliability, environmental and safety programs, as well as refinery enhancement and upgrades necessary to meet octane requirements, including the

Summary of changes in financial position
(millions of dollars)

	1991	1990	1989
Operating activities			
Cash flow from operations	292	621	452
Decrease in advances on future natural gas deliveries	(18)	(20)	(26)
Decrease (increase) in operating working capital	108	(307)	(22)
	382	294	404
Investing activities	(300)	(689)	(392)
Financing activities and dividends	(130)	404	(69)
(Decrease) increase in cash	(48)	9	(57)

phase-out of leaded gasolines. Marketing-related expenditures primarily reflect the ongoing upgrading of wholesale and retail sites and underground tank replacement. During the past two years, expenditures also included the Company's share of costs incurred by Alberta Envirofuels Inc. in the construction of a $390 million MTBE (methyl tertiary butyl ether) plant in Edmonton. Capital expenditures related to ICG Propane are included in Corporate and Other commencing in 1990.

Proceeds from the sale of property, plant and equipment generated $311 million in 1991, $256 million in 1990 and $118 million in 1989. These were made as part of the Company's ongoing asset rationalization program. Proceeds were realized in 1991 from sales of oil and gas properties as well as the sale of the Company's 50 per cent interest in Alberta Envirofuels Inc.'s MTBE plant.

The change in investment and other assets in 1991 was a decrease of $41 million after taking into account $60 million of advances to Petro-Canada Centre which were repaid to the Company. Increases in investments and other assets totalled $67 million in 1990, as the Company subscribed for additional treasury shares issued by Westcoast Energy Inc. on a pro-rata basis to maintain its equity position of 37 per cent. In 1989, Petro-Canada received partial repayment of advances to Petro-Canada Centre. It also purchased additional shares in Westcoast and made additional pension funding. The net result was the generation of $58 million.

Petro-Canada anticipates that, subject to business conditions, expenditures on property, plant and equipment and exploration will be approximately $470 million in 1992. This represents a decrease of $182 million over similar expenditures incurred in 1991.

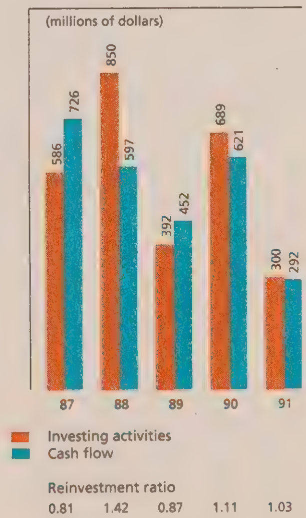
Petro-Canada has announced that it would be willing to sell a minority percentage of its interest in Hibernia. If the Company were to retain its current interest in Hibernia, 1992 expenditures related to that interest, net of government grants, would be in the order of $190 million. However, due to the construction slowdown announced in February 1992, actual expenditures are likely to be lower. Petro-Canada's total share of Hibernia preproduction expenditures is expected to be approximately $1 billion, net of government grants and before borrowings supported by government guarantees.

Capital and exploration expenditures
(millions of dollars)

	1991	1990	1989
Resources			
Exploration[1]	138	149	148
Development	145	109	109
Oil sands and other	58	135	77
	341	393	334
Products			
Refining	81	89	115
Marketing and other	110	73	94
MTBE plant	96	59	–
	287	221	209
Corporate and Other			
ICG Propane	17	16	–
Corporate	7	13	25
	24	29	25
Total property, plant and equipment and exploration expenditures	652	643	568
Investments	(70)	50	(76)
Other assets	29	17	18
Acquisitions	–	235	–
Total	611	945	510

[1] Includes exploration expenses of $113 million in 1991, $111 million in 1990 and $98 million in 1989.

Investing activities and cash flow



Financing Activities and Dividends

In the past, most of the Company's debt was borrowed from Petro-Canada Limited on terms which mirrored the terms of debt incurred by Petro-Canada Limited in various public markets. Petro-Canada Limited is an agent of Canada and as such its borrowings are obligations of Canada. Petro-Canada Limited was therefore able to borrow at, and pass on to the Company the benefit of, interest rates which were lower than the rates at which the Company would have been able to borrow on its own. The Company no longer enjoys this benefit.

The Company's combined short-term and long-term debt level at December 31, 1991, was $1 649 million, compared to $2 242 million at the end of 1990 and $1 948 million at the end of 1989. The decrease in 1991 over 1990 was primarily due to the application of proceeds from the Company's Initial Public Offering of common shares. The increase in 1990 over 1989 consisted of new long-term debt of $348 million, partially offset by repayments and the retirement of three outstanding debt issues amounting to $51 million.

The Company, Petro-Canada Limited and the Government of Canada have entered into an agreement which requires the Company to prepay U.S. $1.2 billion of long-term debt at market value over a 42-month period and to pay a credit enhancement fee on the portion of this debt not yet refinanced. In October 1991, the Company issued U.S. $600 million of long-term debt, consisting of U.S. $300 million of 8.60 per cent, 10-year notes and U.S. $300 million of 9.25 per cent, 30-year debentures. The net proceeds from this issue were used to repay a portion of the long-term debt owing to Petro-Canada Limited.

The agreement between the Company, Petro-Canada Limited and the Government of Canada also requires the Company to pay a guarantee fee on the outstanding U.S. $125 million of medium-term floating rate debt.

The Company provides support for $290 million of medium-term fixed rate debt and bank financing in connection with the financing for Petro-Canada Centre. The repayment of $225 million of this amount is guaranteed by Petro-Canada Limited, for which a guarantee fee is paid.

The Company's debt to debt plus equity ratio has remained relatively stable at approximately 46 per cent over the three years prior to the Company's Initial Public Offering. At year-end, the debt to debt plus equity ratio was approximately 40 per cent, reflecting the application of the Initial Public Offering proceeds to debt. Other financing obligations at December 31, 1991, consisted of the above-mentioned indemnities with respect to debt related to Petro-Canada Centre and the Company's agreement to sell, with limited recourse, accounts receivable on a revolving basis. As at December 31, 1991, and December 31, 1990, accounts receivable of $212 million have been sold pursuant to this agreement, resulting in 1990 cash proceeds of $200 million.

Working capital and bridge financing requirements will continue to be met through the issuance of short-term debt. Petro-Canada intends to fund its short-term requirements through a $750 million commercial paper program. However, the Company does not intend to issue securities in excess of $500 million. This program is supported by standby credit facilities totalling a maximum of $750 million with four Canadian financial institutions. As of December 31, 1991, $118 million of commercial paper was outstanding under the program. In addition, operating credit facilities of $575 million are available, under which letters of credit for a nominal amount are currently outstanding.

Petro-Canada intends to fund capital and exploration expenditures by cash flow from operations and asset sales. Financing flexibility may be provided by reductions in discretionary

Proceeds from sale of property, plant and equipment

(millions of dollars)	1991	1990	1989
Resources	115	211	97
Products	194	36	21
Corporate and Other	2	9	–
Total	311	256	118

Consolidated capitalization

(millions of dollars)	1991	1990	1989
Short-term debt	118	705	710
Long-term debt	1 531	1 537	1 238
Deferred credits and deferred income taxes	1 023	1 308	1 313
Shareholders' equity	2 493	2 582	2 293
Total	5 165	6 132	5 554

capital expenditures, delayed short-term debt reductions or additional asset sales if cash flow from operations is lower than expected.

On July 3, 1991, the Company received net proceeds of approximately $507 million, before related income tax effects, from the sale of 42 004 784 common shares in its Initial Public Offering. The Company issued common shares to Petro-Canada Limited in 1991 for proceeds of $31 million and in 1990 for proceeds of $158 million. Dividends paid on common shares were $45 million in each of 1991, 1990 and 1989. The 1991 dividends included two quarterly dividends of 3.25 cents per share (totalling $14 million), which were paid after the Initial Public Offering.

The Company has entered into an agreement with the Government of Canada with respect to future sales of common shares held by the Government of Canada. Until July 3, 1994, or until the Government of Canada's holdings fall below 50 per cent of outstanding common shares, whichever is sooner, the Government of Canada must approve any issue of treasury shares by the Company.

Risk Management Strategies

Petro-Canada employs risk management strategies to deal with volatility in interest rates, exchange rates and commodity prices and to manage physical property and credit risk.

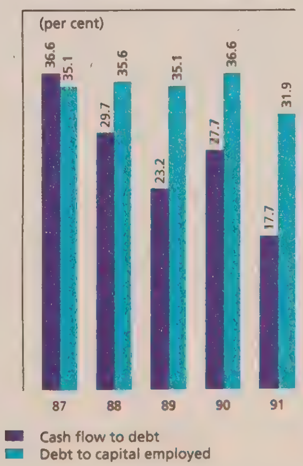
The Company attempts to mitigate financial risks through the ongoing balancing of its fixed/floating rate debt to minimize the impact of interest-rate fluctuations. Petro-Canada also diversifies its sources of funds and maintains an evenly distributed spectrum of long-term debt maturities while controlling the overall levels of borrowing.

As crude oil is priced in U.S. dollars, a significant portion of Petro-Canada's revenue is affected by fluctuations in the Canadian/U.S. exchange rate. Long-term borrowing requirements are funded primarily in U.S. dollars, providing a partial hedge against such currency fluctuations. The Company continually monitors its foreign currency requirements and applies hedging strategies to mitigate the risk of loss due to currency fluctuations. Borrowing in the United States has the potential to access a larger and at times less expensive debt market than is available in Canada.

Petro-Canada hedges against adverse crude oil price movements through a program of trading in commodity futures markets. The Company has sold call options for approximately 10 million barrels of its 1992 crude oil production at U.S. $22 per barrel.

Financial ratios	1991	1990	1989
Current ratio (times)	1.3	1.0	0.8
Interest coverage (times)			
– earnings basis	(3.6)	2.2	1.3
– cash flow basis	2.3	3.7	3.3
Debt to debt plus equity (per cent)	39.8	46.5	45.9

Debt to capital employed and cash flow to debt



Glossary of Financial Terms and Ratios

Terms

Cash flow
Cash flow from operations[1].

Capital employed
Total assets less current liabilities excluding short-term notes payable and the current portion of long-term debt.

Debt
Short-term notes payable and long-term debt including current portion[2].

Ratios

Current ratio
Current assets divided by current liabilities. Reflects the Company's short-term liquidity and its ability to pay short-term trade debts.

Cash flow to debt
Cash flow divided by debt. Indicates the Company's ability to discharge its outstanding debt.

Debt to debt plus equity
Debt divided by debt plus equity[3]. Shows the relative amount of debt in the Company's capital structure. Measures financial strength.

Debt to capital employed
Debt divided by capital employed. Measures the extent to which the Company's asset base has been financed by debt.

Interest coverage
Earnings basis: Earnings[4] before interest expense and provision for income taxes divided by interest expense plus capitalized interest[5].
Cash flow basis: Cash flow[4] before interest expense and current income taxes divided by interest expense plus capitalized interest[5].
Both are indicators of the Company's ability to service its debt.

Reinvestment ratio
Net expenditures on investing activities divided by cash flow. Indicates the rate at which cash flow is reinvested.

Cash flow return on capital employed
Cash flow[4] plus after-tax interest expense divided by average capital employed. Measures cash flow generated relative to the asset base.

Return on capital employed
Net earnings[4] plus after-tax interest expense divided by average capital employed. Measures earnings generated relative to the asset base.

Return on equity
Net earnings divided by average shareholders' equity[3].
Measures the return earned by shareholders on their investment in the Company.

[1] Prior to 1989 – deduct dividends on redeemable preferred shares.
[2] Prior to 1988 – add redeemable preferred shares valued at year-end Cdn./U.S. dollar exchange rates.
[3] Prior to 1988 – reduce shareholders' equity by the valuation adjustment on redeemable preferred shares at year-end Cdn./U.S. dollar exchange rates.
[4] Prior to 1989 – add back dividends on redeemable preferred shares.
[5] Prior to 1989 – add back dividends on redeemable preferred shares grossed up by 1/(1-tax rate).

Management's Responsibility for the Financial Statements

The preparation and presentation of the Company's consolidated financial statements is the responsibility of management. The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include some estimates which are based on management's best judgements. Information contained elsewhere in the Annual Report is consistent, where applicable, with that contained in the financial statements.

Management is also responsible for installing and maintaining a system of internal control to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced for preparation of financial statements. The Company's Internal Audit department reviews the system of internal control to ensure that it is adequate and functioning properly.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises these responsibilities with the assistance of the Audit Committee of the Board.

The external auditors conduct an independent examination and express their opinion on the consolidated financial statements. The Auditors' Report outlines the external auditors' opinion and the scope of their examination.

Chairman and
Chief Executive Officer

Senior Vice-President and
Chief Financial Officer

Audit Committee of the Board of Directors

The Board of Directors exercises its responsibilities for ensuring that management fulfills its responsibilities for financial reporting and internal control with the assistance of the Audit Committee of the Board. The Committee, which is composed of not less than three (currently four) directors who are not employees of the Company, reviews the annual consolidated financial statements and recommends their approval to the Board. The Committee also reviews and approves financial information contained in prospectuses and in reports filed with regulatory authorities, as required, and reviews quarterly financial information before release.

With respect to the external auditors, the Committee reviews the terms of engagement, the annual audit plan, the Auditors' Report, the results of the external audit and any significant recommendations to strengthen internal controls. The Committee also recommends to the Board a firm of external auditors to be appointed by the shareholders.

With respect to the internal auditor, the Committee receives periodic reports on internal audit activities, reviews significant findings and recommendations and approves the annual internal audit plan.

Senior management and the internal auditor and the external auditors attend all Audit Committee meetings and are provided the opportunity to meet privately with the Committee.

Chairman of the Audit Committee

Auditors' Report

To the Shareholders of Petro-Canada:

We have audited the consolidated balance sheet of Petro-Canada as at December 31, 1991 and 1990 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1991. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1991 and 1990 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1991 in accordance with generally accepted accounting principles.

Arthur Andersen & Co.

Chartered Accountants

Calgary, Alberta
February 19, 1992

Consolidated Statement of Earnings

For the years ended December 31,
(stated in millions of dollars)

	1991	1990	1989
		(Restated) (Note 3)	
Revenue			
Operating (Note 5)	$ 4 806	$ 5 680	$ 4 852
Investment and other income	155	193	174
	4 961	5 873	5 026
Expenses			
Crude oil and product purchases	2 516	2 501	1 977
Producing, refining and marketing	1 554	1 518	1 413
General and administrative	300	324	379
Exploration	113	111	98
Depreciation, depletion and amortization	407	373	396
Taxes other than income taxes (Note 5)	67	429	384
Interest on long-term debt	134	137	101
Other interest	69	141	121
	5 160	5 534	4 869
Unusual Items (Note 6)	(770)	–	(92)
Earnings (Loss) before Income Taxes	(969)	339	65
Provision for (Recovery of) Income Taxes (Note 7)			
Current	(9)	130	52
Deferred	(362)	33	(3)
	(371)	163	49
Net Earnings (Loss) (Note 8)	$ (598)	$ 176	$ 16

Consolidated Statement of Retained Earnings

For the years ended December 31,
(stated in millions of dollars)

	1991	1990	1989
		(Restated) (Note 3)	
Retained Earnings (Deficit) at Beginning of Year, as previously reported	$ 98	$ (173)	$ (1 135)
Retroactive application of change in accounting policy (Note 3)	(89)	(84)	(80)
Retained Earnings (Deficit) at Beginning of Year, as restated	9	(257)	(1 215)
Transfer from contributed surplus (Note 18)	–	135	987
Net earnings (loss)	(598)	176	16
Dividends on common shares	(45)	(45)	(45)
Retained Earnings (Deficit) at End of Year	$ (634)	$ 9	$ (257)

Consolidated Statement of Changes in Financial Position

For the years ended December 31,
(stated in millions of dollars)

	1991	1990	1989
		(Restated) (Note 3)	
Operating Activities			
Net earnings (loss)	$ (598)	$ 176	$ 16
Items not affecting cash flow from operations (Note 9)	777	334	338
Exploration expenses	113	111	98
Cash flow from operations	292	621	452
Decrease in advances on future natural gas deliveries	(18)	(20)	(26)
Decrease (increase) in operating working capital (Note 10)	108	(307)	(22)
	382	294	404
Investing Activities			
Acquisition of ICG Propane Inc. (Note 4)	–	(235)	–
Expenditures on property, plant and equipment and exploration	(652)	(643)	(568)
Proceeds from sale of property, plant and equipment	311	256	118
Decrease (increase) in investments, net	70	(50)	76
Increase in other assets, net	(29)	(17)	(18)
	(300)	(689)	(392)
Financing Activities and Dividends			
Proceeds from issue of common shares	554	158	–
Proceeds from issue of long-term debt	674	347	240
Decrease in short-term notes payable, net	(587)	(5)	(258)
Dividends on common shares	(45)	(45)	(45)
Reduction of long-term debt	(726)	(51)	(6)
	(130)	404	(69)
(Decrease) Increase in Cash and Short-Term Deposits	(48)	9	(57)
Cash and Short-Term Deposits at Beginning of Year	36	27	84
Cash and Short-Term Deposits (Deficiency) at End of Year	$ (12)	$ 36	$ 27

Consolidated Balance Sheet

As at December 31,
(stated in millions of dollars)

	1991	1990 (Restated) (Note 3)
Assets		
Current Assets		
Cash and short-term deposits	$ –	$ 36
Accounts receivable (Note 11)	611	773
Income taxes recoverable	29	–
Inventories (Note 12)	657	964
Prepaid expenses	33	48
	1 330	1 821
Investments (Note 13)	453	504
Property, Plant and Equipment, net (Note 14)	4 084	4 778
Other Assets (Note 15)	167	175
	$ 6 034	$ 7 278
Liabilities and Shareholders' Equity		
Current Liabilities		
Outstanding cheques less cash and short-term deposits	$ 12	$ –
Short-term notes payable	118	705
Accounts payable and accrued liabilities	857	1 012
Income taxes payable	–	134
	987	1 851
Long-Term Debt (Note 16)	1 531	1 537
Deferred Credits (Note 17)	459	367
Deferred Income Taxes	564	941
Commitments and Contingent Liabilities (Note 22)		
Shareholders' Equity (Note 18)	2 493	2 582
	$ 6 034	$ 7 278

Approved on behalf of the Board

W. H. Hopper

Director

Claude Fortier

Director

Notes to Consolidated Financial Statements

(stated in millions of dollars)

Note 1: Summary of Significant Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements include the accounts of Petro-Canada and of all subsidiary companies ("the Company") and comply in all material respects with Canadian generally accepted accounting principles.

The excess of the consideration paid for the shares of subsidiaries over the underlying net book values at the dates of acquisition is attributed to the related assets acquired and is amortized over the life of these assets.

(b) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of crude oil, refined products and merchandise is determined on a "first-in, first-out" basis.

(c) Investments

The Company accounts for investments in companies over which it has significant influence on the equity method. Other long-term investments are accounted for on the cost method.

(d) Property, Plant and Equipment

The Company accounts for its investment in exploration and development activities on the successful efforts method. Under this method the acquisition cost of unproved acreage is capitalized. Costs of exploratory wells are initially capitalized pending determination of proved reserves and costs of wells which are assigned proved reserves remain capitalized while costs of unsuccessful wells are charged to earnings. All other exploration costs are charged to earnings as incurred. Development costs, including the cost of all wells, are capitalized.

Substantially all of the Company's exploration and development activities are conducted jointly with others. Only the Company's proportionate interest in such activities is reflected in the financial statements.

The interest cost of debt attributable to the construction of major new facilities is capitalized during the construction period.

Overburden removal costs relating to oil sands which will be mined in future years are deferred and are charged to earnings when the related oil sands are mined.

(e) Depreciation, Depletion and Amortization

The carrying amounts of significant unproved properties are evaluated periodically for impairment with any such impairment being charged to earnings. The cost of other unproved properties is amortized over their average holding period.

Depreciation and depletion of capitalized costs of oil and gas producing properties is calculated using the unit of production method.

Depreciation of other plant and equipment is provided on either the unit of production method or the straight line method as appropriate. Straight line depreciation rates are based on the estimated service lives of the related assets.

(f) Future Removal and Site Restoration Costs

The Company provides for estimated future removal and site restoration costs using either the unit of production method or the straight line method, over estimated service lives.

Notes to Consolidated Financial Statements

(stated in millions of dollars)

Note 1: Summary of Significant Accounting Policies (Continued)

(g) Income Taxes
The Company makes full provision for income taxes deferred as the result of claiming depreciation, exploration, development and other costs for income tax purposes which differ from the related amounts charged to earnings.

(h) Translation of Foreign Currency
Monetary assets and liabilities are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Other assets and related depreciation, depletion and amortization, other liabilities, revenue and other expense items are translated at rates of exchange in effect at the respective transaction dates. The resulting exchange gains or losses are included in earnings, except for unrealized exchange gains or losses arising on translation of long-term debt, which are deferred and amortized over the remaining term of the debt.

Foreign operations are integrated with the Company's other activities and are translated in the manner described above.

(i) Postemployment Benefits
In addition to its pension plans the Company provides for other postemployment benefits, including health, dental and life insurance, to its qualifying retirees. The cost of these benefits is charged to earnings when paid by the Company.

Note 2: The Petro-Canada Public Participation Act

On February 1, 1991 the Petro-Canada Public Participation Act (the "Act") received Royal Assent. The Act authorized the Company to proceed with an Initial Public Offering of shares of the Company to the public subject to restrictions on non-resident and individual share ownership of 25% and 10%, respectively.

The Act also provides that:

- the name of the Company is changed from Petro-Canada Inc. to Petro-Canada,
- the name of the former parent company is changed from Petro-Canada to Petro-Canada Limited,
- the shares of the Company held by Petro-Canada Limited are transferred to the Minister of State (Finance and Privatization),
- the Company's head office will be situated in Calgary, and
- the sale of substantially all of the assets of individual business segments is restricted.

The Company has entered into an agreement to restructure its long-term indebtedness to Petro-Canada Limited (Note 16) and has completed the Initial Public Offering of common shares (Note 18).

Note 3: Change in Accounting Policy

Effective January 1, 1991 the Company adopted, retroactively, the new recommendation of the Canadian Institute of Chartered Accountants on future removal and site restoration costs (Note 1(f)). Previously these costs were charged to earnings when paid. The effect of this change in 1991 was not material while previously reported 1990 and 1989 net earnings were reduced by $5 million and $4 million, respectively.

Notes to Consolidated Financial Statements

(stated in millions of dollars)

Note 4: Acquisition of ICG Propane Inc.

In 1990 the Company completed its acquisition of ICG Propane Inc., the propane division of Inter-City Gas Corporation. This acquisition was effective January 1, 1990 and has been accounted for by the purchase method as follows:

Book value of assets acquired		$ 164
Book value of assumed liabilities		(78)
		86
Excess of attributed value over book value of acquired net assets:		
Property, plant and equipment	$ 71	
Goodwill	78	149
Total cost of acquisition		$ 235

Funds for the acquisition were provided from cash flow from operations and short-term borrowings.

Note 5: Taxes and Crown Royalties

	1991	1990	1989
Items included in the statement of earnings:			
Federal sales taxes[1]	**$ –**	$ 363	$ 328
Other taxes	**67**	66	56
	67	429	384
Provision for (recovery of) income taxes	**(371)**	163	49
	$ (304)	$ 592	$ 433

[1] These amounts were included in both revenue and expenses in the statement of earnings.

	1991	1990	1989
Items not included in the statement of earnings:			
Crown royalties, paid and paid in kind	**$ 106**	$ 136	$ 133
Federal excise taxes	**730**	731	662
Provincial fuel and sales taxes	**1 036**	944	892
Goods and Services Tax collected	**551**	–	–
	$ 2 423	$ 1 811	$ 1 687

Notes to Consolidated Financial Statements

(stated in millions of dollars)

Note 6: Unusual Items

	1991	1990	1989
Restructure and reorganization	$ (655)	$ –	$ (92)
Writedown of investment in Syncrude	(138)	–	–
Gain on retirement of long-term debt	23	–	–
	$ (770)	$ –	$ (92)

Restructure and reorganization

As a result of a decline in the demand for refined petroleum products and changes in the current and anticipated business conditions, the Company is restructuring its refining and marketing business. The Company has announced its intention to sell or joint venture its Montreal Refinery and to close refinery facilities located at Mississauga, Ontario, and Port Moody, British Columbia, and certain marketing facilities throughout Canada. Based on the Company's perception of market conditions as well as discussions with prospective purchasers, the carrying amount of the facilities to be sold has been written down to the estimated net realizable value of these assets. The carrying amount of the facilities to be closed has been written down and $201 million has been provided for expenses to be incurred in connection with the closures. The asset writedown and the provision for the estimated closure expenses, which in aggregate amount to $637 million, have been charged to earnings in 1991.

During 1991 the Company implemented an internal reorganization and staff reduction program. The cost of this program, in the amount of $18 million, has been charged to 1991 earnings. A similar program was implemented in 1989, resulting in a charge to 1989 earnings of $92 million.

Writedown of investment in Syncrude

The Company has announced its intention to sell a portion of its working interest in the Syncrude project. On October 17, 1991 the Company signed a letter of intent to sell a 5% interest in the project. Based on discussions leading up to this transaction, and on market conditions, the carrying amount of the net assets associated with the Company's working interest in the Syncrude project exceeds the estimated net realizable value of these assets. Accordingly, the Company has written down the carrying amount resulting in a charge to 1991 earnings of $138 million.

Gain on retirement of long-term debt

The Company prepaid U.S. $600 million of debt under the terms of an agreement to restructure its long-term indebtness to Petro-Canada Limited, a wholly owned Crown Corporation which is Petro-Canada's former parent company (Notes 2 and 16). The $23 million gain on the retirement of this debt has been included in 1991 earnings.

Notes to Consolidated Financial Statements

(stated in millions of dollars)

Note 7: Income Taxes

The provision for (recovery of) income taxes of $(371) million (1990 – $163 million; 1989 – $49 million) represents an effective rate of 38.3% (1990 – 48.1%; 1989 – 75.4%) on earnings (loss) before income taxes. The computation of the provision for (recovery of) income taxes, which requires adjustment to earnings (loss) before income taxes for non-taxable and non-allowable items, is as follows:

	1991	1990	1989
Earnings (loss) before income taxes	$ (969)	$ 339	$ 65
Add (deduct)			
Royalties and other payments to provincial governments, net	111	139	137
Federal allowances			
Resource allowance	(56)	(132)	(101)
Tax depletion	–	–	(36)
Non-deductible depreciation, depletion and amortization	88	73	68
Non-deductible interest	2	17	20
Non-taxable gains	(3)	(6)	(7)
Equity in earnings of affiliates	(36)	(37)	(31)
Other	(28)	(19)	(8)
Earnings (loss) as adjusted before income taxes	$ (891)	$ 374	$ 107
Canadian Federal income tax rate	38.0%	38.0%	39.5%
Canadian Federal income tax rate applied to earnings (loss) as adjusted	$ (339)	$ 142	$ 42
Large Corporations Tax	11	10	5
Provincial and other income taxes, net of federal abatement	(37)	13	7
Provincial income tax rebates	(6)	(2)	(5)
Provision for (recovery of) income taxes	$ (371)	$ 163	$ 49

Notes to Consolidated Financial Statements

(stated in millions of dollars)

Note 8: Net Loss per Common Share

The basic net loss per common share for the year ended December 31, 1991 was $3.08. Earnings per share have not been provided for prior years as Petro-Canada was a wholly owned subsidiary of a Crown corporation.

Note 9: Items not Affecting Cash Flow from Operations

	1991	1990	1989
Unusual items, net of cash (Note 6)	$ 752	$ –	$ –
Depreciation, depletion and amortization	407	373	396
Deferred income taxes	(362)	33	(3)
Gain on sale of assets	(33)	(69)	(45)
Equity earnings, net of dividends received	(5)	(9)	(6)
Other	18	6	(4)
	$ 777	$ 334	$ 338

Note 10: Decrease (Increase) in Operating Working Capital

	1991	1990	1989
Accounts receivable	$ 162	$ 35	$ (73)
Income taxes recoverable	(29)	–	–
Inventories	307	(287)	(117)
Prepaid expenses	15	(3)	(4)
Accounts payable and accrued liabilities	(155)	168	110
Income taxes payable	(134)	(63)	17
Current accruals relating to unusual items (Note 6), and other	(58)	(9)	–
Advances	–	(148)	45
	$ 108	$ (307)	$ (22)

Operating working capital is comprised of working capital other than cash and short-term deposits, outstanding cheques less cash and short-term deposits, short-term notes payable and current portion of long-term debt.

Note 11: Accounts Receivable

In 1990 the Company entered into an agreement to sell, with limited recourse, accounts receivable on a revolving basis. As at December 31, 1991 and December 31, 1990 accounts receivable of $212 million have been sold pursuant to this agreement, resulting in 1990 cash proceeds of $200 million.

Note 12: Inventories

	1991	1990
Crude oil, refined products and merchandise	$ 595	$ 907
Materials and supplies	62	57
	$ 657	$ 964

Notes to Consolidated Financial Statements

(stated in millions of dollars)

Note 13: Investments

	1991	1990
At equity		
Westcoast Energy Inc.	**$ 364**	$ 353
Petro-Canada Centre	**31**	92
Other	**20**	28
At cost		
Loans and other investments	**38**	31
	$ 453	$ 504

Westcoast Energy Inc. ("Westcoast")

At December 31, 1991 the Company held approximately 37% (December 31, 1990 – 37%) of the outstanding common shares of Westcoast with a quoted market value of $435 million (December 31, 1990 – $453 million).

Petro-Canada Centre

The Company owns 50% of Petro-Canada Centre, an office complex in Calgary. The Company has entered into a long-term lease for use of a portion of the complex and, as at December 31, 1991, has provided support for a guarantee of $290 million of debt related to the facility.

Note 14: Property, Plant and Equipment

	1991			1990			1991	1990
	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Capital Expenditures	
Natural Resources								
Oil and gas								
Canada – non-frontier	**$ 3 417**	**$ 1 987**	**$ 1 430**	$ 3 549	$ 1 972	$ 1 577	**$ 127**	$ 223
– frontier	**182**	**–**	**182**	120	–	120	**62**	14
Foreign	**21**	**6**	**15**	18	3	15	**3**	5
Oil sands								
Syncrude Project	**812**	**330**	**482**	787	197	590	**25**	23
Other	**218**	**218**	**–**	217	217	–	**1**	5
Natural gas liquids	**237**	**125**	**112**	228	114	114	**9**	11
Other	**78**	**57**	**21**	77	56	21	**1**	1
	4 965	**2 723**	**2 242**	4 996	2 559	2 437	**228**	282
Refined Products								
Refining	**1 886**	**1 079**	**807**	1 838	579	1 259	**81**	89
Marketing and other	**1 093**	**299**	**794**	1 060	246	814	**206**	132
	2 979	**1 378**	**1 601**	2 898	825	2 073	**287**	221
Other property, plant and equipment	**525**	**284**	**241**	509	241	268	**24**	29
	$ 8 469	**$ 4 385**	**$ 4 084**	$ 8 403	$ 3 625	$ 4 778	**$ 539**	$ 532

Interest capitalized for the year ended December 31, 1991 amounted to $10 million (year ended December 31, 1990 – $2 million; year ended December 31, 1989 – $nil).

Notes to Consolidated Financial Statements

(stated in millions of dollars)

Note 15: Other Assets

	1991	1990
At cost		
Oil sands overburden removal costs	$ 15	$ 47
Less portion related to oil sands to be mined within one year	7	21
	8	26
Deferred pension funding	40	32
At amortized cost		
Goodwill	64	72
Deferred financing costs	19	18
Other	36	27
	$ 167	$ 175

Note 16: Long-Term Debt

	Maturity	1991	1990
In United States dollars			
8.60% unsecured debentures (U.S. $300 million)[1]		$ –	$ 348
8.25% unsecured debentures (U.S. $200 million)[1]		–	232
9.70% unsecured debentures (U.S. $100 million)[1]		–	116
LIBOR less 0.8% unsecured notes (U.S. $125 million)[2]	1995	144	145
7.25% unsecured debentures (U.S. $200 million)[1]	1996	231	232
8.60% unsecured notes (U.S. $300 million)	2001	347	–
9.50% unsecured debentures (U.S. $200 million)[1]	2003	231	232
8.80% unsecured debentures (U.S. $200 million)[1]	2019[3]	231	232
9.25% unsecured debentures (U.S. $300 million)	2021	347	–
		$ 1 531	$ 1 537

[1] Due to Petro-Canada Limited (Note 2). In May 1991 the Company entered into an agreement with Petro-Canada Limited and the Government of Canada, whereby the Company will prepay to Petro-Canada Limited the outstanding long-term debt due to Petro-Canada Limited. This prepayment, based on the market value of the debt on the date of prepayment, must be made within a 42 month period which is extendable under certain circumstances. The Company is required to pay a credit enhancement fee, the amount of which depends on the Company's credit rating from time to time. Based on the Company's current credit rating, the credit enhancement fee will range from ½ of 1% to 1.5% per annum of the related outstanding debt. In addition a prepayment premium of U.S. $13 million is to be paid of which U.S. $6.5 million was paid in 1991 in relation to the Company's prepayment of U.S. $600 million of the outstanding long-term debt.

[2] Guaranteed by Petro-Canada Limited. The Company is required to pay a guarantee fee, the amount of which depends on the Company's credit rating from time to time. Based on the Company's current credit rating, the guarantee fee is ½ of 1% per annum of the outstanding debt.

[3] Redeemable, at face value, in 2004 at the option of the holder thereof.

The minimum repayment of long-term debt in the next five years is $144 million in 1995 and $231 million in 1996.

Notes to Consolidated Financial Statements

(stated in millions of dollars)

Note 17: Deferred Credits

		1991		1990
Future removal and site restoration costs (Note 3)	$	**311**	$	176
Translation adjustment on long-term debt		**31**		100
Advances on future natural gas deliveries		**31**		49
Long-term liabilities		**86**		42
	$	**459**	$	367

Note 18: Shareholders' Equity

		1991		1990
Common shares	$	**555**	$	1
Contributed surplus		**2 572**		2 572
Retained earnings (deficit)		**(634)**		9
	$	**2 493**	$	2 582

The authorized share capital of the Company is comprised of an unlimited number of:
(a) Preferred shares issuable in series designated as Senior Preferred Shares;
(b) Preferred shares issuable in series designated as Junior Preferred Shares; and
(c) Common shares.

Changes in share capital and contributed surplus were as follows:

	1991			1990		
	Common Shares		Contributed Surplus	Common Shares		Contributed Surplus
	Shares	Amount		Shares	Amount	
Balance at beginning of year	**4 405 921**	**$ 1**	**$ 2 572**	4 216 011	$ 1 000	$ 1 550
Issued for cash[1]	**42 042 199**	**554**	**–**	189 910	158	–
Subdivision of shares	**168 846 768**	**–**	**–**	–	–	–
Reduction of stated capital	**–**	**–**	**–**	–	(1 157)	1 157
Transfer to retained earnings	**–**	**–**	**–**	–	–	(135)
Balance at end of year	**215 294 888**	**$ 555**	**$ 2 572**	4 405 921	$ 1	$ 2 572

	1989		
	Common Shares		Contributed Surplus
	Shares	Amount	
Balance at beginning of year	4 216 011	$ 1 000	$ 2 537
Transfer to retained earnings	–	–	(987)
Balance at end of year	4 216 011	$ 1 000	$ 1 550

[1] Included in the shares issued for cash during 1991 is the Company's Initial Public Offering of 42 004 784 shares for net proceeds of $523 million (Note 2).

The Company has reserved 2 083 933 common shares for an employee incentive stock option plan and for the employee share purchase plan. As at December 31, 1991 employees hold options for the purchase of 1 252 162 shares at a price of $13.00. These options vest at a rate of 20% per year beginning on July 3, 1992. All options not exercised by July 3, 2001 will be forfeit. In addition employees may become entitled to 831 771 shares, for nil consideration, under the terms of the employee share purchase plan.

In June 1991 the Company approved Articles of Amendment subdividing its outstanding shares on a 39 for 1 basis.

In October 1990 a reduction in the common share stated capital of $1 157 million and a corresponding increase in contributed surplus, together with a transfer from contributed surplus to retained earnings, were approved. The transfer from contributed surplus to retained earnings offset a deficit of $135 million.

In 1989 $987 million was transferred from contributed surplus to retained earnings to offset a deficit.

Notes to Consolidated Financial Statements

(stated in millions of dollars)

Note 19: Pension Plans

The Company's plans are defined benefit plans with the benefits generally based upon years of service and average salary during the final years of employment. They are funded by the Company based upon the advice of an independent actuary. The plans' assets are held primarily in equity, fixed income and other marketable securities.

Plan Status	**1991**	1990
Actuarial value of assets	**$ 627**	$ 588
Pension obligation	**582**	527
Net pension asset	**$ 45**	$ 61

The net pension asset is amortized to earnings over the expected average remaining service life of the employees covered by the plans, which is currently 13 years.

As at December 31, 1991 $564 million (December 31, 1990 – $521 million) of the pension obligation was vested.

Pension Expense	**1991**	1990	1989
Current service cost	**$ 23**	$ 21	$ 19
Interest cost	**48**	42	37
Actual return on plan assets	**(83)**	22	(85)
Net amortization and deferral	**29**	(73)	49
	$ 17	$ 12	$ 20
Pension Funding	**$ 28**	$ 9	$ 31
Plan Assumptions			
Discount rate	**9.0%**	9.0%	8.5%
Long-term rate of return on plan assets	**9.0%**	9.0%	8.5%
Rate of compensation increase, excluding merit increases	**6.0%**	6.0%	6.0%

Note 20: Related Party Transactions

Transactions with the Government of Canada and its agencies, and other related parties, are in the normal course of business and are therefore on the same terms as those accorded to non-related parties.

As at December 31, 1991, officers and employees of the Company owed the Company $13 million in relation to stock purchase plans.

Note 21: Segmented Information

The Company operates in two business segments:

Natural Resources, comprising: exploration, development, production, transportation and marketing activities for crude oil, natural gas, field liquids, sulphur and oil sands; and extraction of liquids from natural gas.

Refined Products, comprising: purchase and sale of crude oil; refining crude oil into oil products; and distribution and marketing of these and other purchased products.

Financial information by business segment is presented in the following table as though each segment were a separate business entity. Inter-segment transfers of products, which are accounted for at market value, are eliminated on consolidation. Corporate and Other includes propane marketing, investment income, interest expense and unallocated general corporate revenues and expenditures. Corporate and Other assets are principally cash and short-term deposits, investments in other companies, propane marketing assets and general corporate assets.

Notes to Consolidated Financial Statements

(stated in millions of dollars)

Note 21: Segmented Information (Continued)

	Natural Resources			Refined Products			Corporate and Other			Consolidated		
	1991	1990	1989	**1991**	1990	1989	**1991**	1990	1989	**1991**	1990	1989
Revenue												
Sales to customers and other revenues	$ 405	$ 506	$ 511	$ 4 174	$ 4 934	$ 4 442	$ 382	$ 433	$ 73	$ 4 961	$ 5 873	$ 5 026
Inter-segment sales	664	808	640	19	14	–	–	–	–			
Segment Revenue	$ 1 069	$ 1 314	$ 1 151	$ 4 193	$ 4 948	$ 4 442	$ 382	$ 433	$ 73			
Earnings												
Operating earnings (loss) before the following:	$ 427	$ 672	$ 519	$ (15)	$ 375	$ 341	$ 112	$ 54	$ 13	$ 524	$ 1 101	$ 873
Depreciation, depletion and amortization	(212)	(187)	(244)	(162)	(155)	(147)	(33)	(31)	(5)	(407)	(373)	(396)
Exploration expense	(113)	(111)	(98)	–	–	–	–	–	–	(113)	(111)	(98)
Interest	–	–	–	–	–	–	(203)	(278)	(222)	(203)	(278)	(222)
Unusual items	(138)	–	–	(655)	–	–	23	–	(92)	(770)	–	(92)
(Provision for) recovery of income taxes	(28)	(175)	(93)	344	(95)	(89)	55	107	133	371	(163)	(49)
Net Earnings (Loss)	$ (64)	$ 199	$ 84	$ (488)	$ 125	$ 105	$ (46)	$ (148)	$ (173)	$ (598)	$ 176	$ 16
Capital and Exploration Expenditures												
Property, plant and equipment and exploration expenditures	$ 341	$ 393	$ 334	$ 287	$ 221	$ 209	$ 24	$ 29	$ 25	$ 652	$ 643	$ 568
Investments	(13)	–	–	2	1	(1)	(59)	49	(75)	(70)	50	(76)
Other assets	4	2	4	2	10	3	23	5	11	29	17	18
Acquisition of ICG Propane Inc.	–	–	–	–	–	–	–	235	–	–	235	–
	$ 332	$ 395	$ 338	$ 291	$ 232	$ 211	$ (12)	$ 318	$ (39)	$ 611	$ 945	$ 510
Total Assets	$ 2 485	$ 2 724	$ 2 733	$ 2 724	$ 3 694	$ 3 406	$ 825	$ 860	$ 604	$ 6 034	$ 7 278	$ 6 743
Capital Employed	$ 2 247	$ 2 474	$ 2 498	$ 2 161	$ 2 995	$ 2 853	$ 757	$ 663	$ 203	$ 5 165	$ 6 132	$ 5 554

Note 22: Commitments and Contingent Liabilities

Commitments

(a) The Company has leased property and equipment under various long-term operating leases for periods up to 2011. The minimum annual rentals for non-cancellable operating leases are estimated at $116 million in 1992, $94 million in 1993, $79 million in 1994, $65 million in 1995, $55 million in 1996 and $27 million per year thereafter until 2011.

(b) During 1990 the Company signed agreements with other joint venture participants and with the governments of Canada and Newfoundland and Labrador to develop the Hibernia offshore oil field. Costs of this development project to production start-up are estimated at $5.2 billion; the Company's share after government contributions is expected to be approximately $1.0 billion (before related investment tax credits), of which $83 million had been expended to December 31, 1991. It is anticipated that total development costs subsequent to production start-up, estimated at approximately $3.4 billion, will be financed from cash flow from the Hibernia project.

On February 4, 1992 one of the other joint venture participants announced that it was withdrawing from the Hibernia project. The remaining participants are pursuing alternatives to deal with the consequences of this withdrawal.

(c) The Company has sold call options for approximately 10 million barrels of its 1992 crude oil production at U.S. $22 per barrel.

Contingent Liabilities

The Company is involved in litigation and claims associated with normal operations. Management is of the opinion that any resulting settlements would not materially affect the financial position of the Company.

Note 23: Comparative Figures

Certain reclassifications have been made to the 1990 and 1989 comparative figures to conform with the current year's presentation.

Supplemental Information

(unaudited, stated in millions of dollars)

Generally Accepted Accounting Principles ("GAAP") in the United States

The Company's consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada, which differ in some respects from those applicable in the United States. The following are the significant differences in accounting principles as they pertain to the accompanying consolidated financial statements.

(a) The Company has reflected the accumulated deferred income taxes previously recorded by the companies it acquired. Under the United States deferral method these deferred income tax balances at the dates of acquisition would not have been recorded by the Company.

(b) The Company has deferred unrealized gains and losses on translation of long-term debt payable in foreign currencies for amortization over the remaining term of the debt. Under United States GAAP, gains or losses on the translation of long-term debt payable in foreign currencies would be credited or charged to earnings with no deferral.

(c) United States GAAP requires that interest be capitalized as part of the cost of certain assets while they are being prepared for their intended use. The Company does not capitalize interest on all such assets.

(d) During 1991 the Company changed its method of accounting to provide for future removal and site restoration costs (Note 3). Under United States GAAP, the cumulative effect would have been charged to earnings in the current period and the prior years' consolidated financial statements would not have been restated, as they were under Canadian GAAP.

(e) During 1990 and 1989 the Company offset contributed surplus of $135 million and $987 million, respectively, against the accumulated deficit (Note 18). Under United States GAAP, this offset would not have occurred.

(f) The foreign currency component of the gain on retirement of long-term debt (Note 6) would have been included in earnings of prior years (see (b) above), thereby creating a loss on retirement of long-term debt which would have been treated as an extraordinary item under United States GAAP.

Supplemental Information

(unaudited, stated in millions of dollars)

Generally Accepted Accounting Principles ("GAAP") in the United States (Continued)

The application of United States GAAP would have the following effects on earnings as reported:

	1991	1990	1989
Net earnings (loss) as reported in the consolidated statement of earnings	$ (598)	$ 176	$ 16
Adjustments, net of applicable income taxes			
Foreign currency translation	(4)	(10)	19
Capitalization (amortization) of interest	7	10	9
Future removal and site restoration costs	(89)	5	4
Share of United States GAAP adjustments related to Westcoast Energy Inc.	(39)	3	3
Gain on retirement of long-term debt	(19)	–	–
Earnings (loss), as adjusted, before extraordinary item	(742)	184	51
Loss on retirement of long-term debt	(24)	–	–
Net earnings (loss), as adjusted	$ (766)	$ 184	$ 51
Net loss per common share			
Before extraordinary item (dollars)	$ 3.82		
After extraordinary item (dollars)	$ 3.95		

Supplemental Information

(unaudited, stated in millions of dollars)

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves

The following disclosures on standardized measure of discounted cash flows and changes therein relating to proved oil and gas reserves are determined in accordance with the United States Financial Accounting Standards Board Statement No. 69 ("Disclosures About Oil and Gas Producing Activities").

The future cash flows are calculated by applying year-end prices, or prices provided by contractual arrangements, net of royalties, to year-end quantities of proved oil and gas reserves. Future production, development and site restoration costs are based on year-end costs and estimated future income taxes are based on year-end rates. The resulting future net cash flows are discounted at 10 per cent per annum. The calculation does not represent a fair market value of the Company's oil and gas reserves or of the future net cash flows. Cash flows from the Company's interest in Syncrude are not included and no consideration is given to the value of exploration properties or probable reserves.

Present Value of Estimated Future Net Cash Flows	**1991**	1990[1]	1989[1]
Future cash flows	**$ 5 618**	$ 10 555	$ 8 933
Future production, development and site restoration costs	**2 632**	3 343	3 251
Future income taxes	**1 044**	2 787	2 191
Future net cash flows	**1 942**	4 425	3 491
Discount of 10 per cent for estimated timing of cash flows	**754**	2 027	1 547
Discounted future net cash flows	**$ 1 188**	$ 2 398	$ 1 944
Proportional interest in standardized measure of discounted future net cash flows of Westcoast Energy Inc.	**$ 118**	$ 192	$ 169

Summary of Changes in Present Value of Estimated Future Net Cash Flows	**1991**	1990[1]	1989[1]
Balance at beginning of year	**$ 2 398**	$ 1 944	$ 1 693
Changes result from:			
Sales and transfers of oil and gas produced, net of production costs	**(373)**	(519)	(483)
Net changes in prices, operating costs and royalties	**(1 736)**	865	638
Extensions, discoveries, additions and improved recovery	**32**	284	47
Changes in estimated future development costs	**19**	43	(59)
Development costs incurred during the year	**63**	79	101
Revisions of previous quantity estimates	**(227)**	(104)	(121)
Accretion of discount	**372**	298	256
Net change in income tax	**834**	(286)	(169)
Purchase and sale of reserves in place	**(95)**	(17)	(58)
Changes in timing and other	**(99)**	(189)	99
Net change	**(1 210)**	454	251
Balance at end of year	**$ 1 188**	$ 2 398	$ 1 944

[1] Restated – see Note 3 to the Consolidated Financial Statements.

Supplemental Information

(unaudited, stated in millions of dollars)

Oil and Gas Producing Activities

The following tables have been prepared in accordance with the provisions of the United States Financial Accounting Standards Board Statement No. 69. Activities associated with natural gas extraction plants, petroleum products and general corporate costs are not included in these tables.

Results of Operations

	Oil and Gas												Syncrude			Total		
	Canada – Non-Frontier			Canada – Frontier			International			Bitumen and Other								
	1991	1990[1]	1989[1]	**1991**	1990[1]	1989[1]	**1991**	1990[1]	1989[1]	**1991**	1990[1]	1989[1]	**1991**	1990[1]	1989[1]	**1991**	1990[1]	1989[1]
Sales to customers	**209**	213	271	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–	**209**	213	271
Inter-segment sales	**376**	496	406	**–**	–	–	**–**	–	14	**9**	20	14	**229**	257	195	**614**	773	629
Total sales	**585**	709	677	**–**	–	–	**–**	–	14	**9**	20	14	**229**	257	195	**823**	986	900
Production expenses	**221**	205	215	**–**	–	–	**–**	–	2	**12**	11	13	**165**	161	157	**398**	377	387
Exploration expenses	**63**	62	57	**9**	14	4	**41**	35	37	**–**	–	–	**–**	–	–	**113**	111	98
Depreciation, depletion and amortization	**161**	132	165	**–**	–	–	**3**	3	6	**–**	5	27	**25**	24	20	**189**	164	218
Syncrude writedown	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–	**138**	–	–	**138**	–	–
Income taxes	**85**	151	130	**(4)**	(7)	(2)	**(19)**	(16)	(12)	**(1)**	1	(20)	**(33)**	24	3	**28**	153	99
Results of operations	**55**	159	110	**(5)**	(7)	(2)	**(25)**	(22)	(19)	**(2)**	3	(6)	**(66)**	48	15	**(43)**	181	98
Proportional interest in results of Westcoast Energy Inc.	**6**	15	11	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–	**6**	15	11

[1] Restated – see Note 3 to the Consolidated Financial Statements.

Capitalized Costs

	Oil and Gas								Syncrude		Total	
	Canada – Non-Frontier		Canada – Frontier		International		Bitumen and Other					
	1991	1990	**1991**	1990	**1991**	1990	**1991**	1990	**1991**	1990	**1991**	1990
Proved and unproved oil and gas properties	**3 261**	3 392	**182**	120	**21**	18	**452**	451	**812**	787	**4 728**	4 768
Accumulated depreciation, depletion and amortization	**1 810**	1 794	**–**	–	**6**	3	**452**	451	**330**	197	**2 598**	2 445
Net capitalized costs	**1 451**	1 598	**182**	120	**15**	15	**–**	–	**482**	590	**2 130**	2 323
Proportional interest in net capitalized costs of Westcoast Energy Inc.	**276**	277	**–**	–	**–**	–	**–**	–	**–**	–	**276**	277

Costs Incurred

	Oil and Gas												Syncrude			Total		
	Canada – Non-Frontier			Canada – Frontier			International			Bitumen and Other								
	1991	1990	1989	**1991**	1990	1989	**1991**	1990	1989	**1991**	1990	1989	**1991**	1990	1989	**1991**	1990	1989
Property costs																		
Proved	**23**	95	24	**–**	–	–	**–**	–	8	**–**	–	–	**–**	–	–	**23**	95	32
Unproved	**14**	28	16	**–**	–	–	**–**	9	7	**–**	–	–	**–**	–	–	**14**	37	23
Exploration costs	**73**	62	67	**7**	14	12	**44**	36	51	**–**	–	–	**–**	–	–	**124**	112	130
Development costs	**81**	94	104	**64**	15	–	**–**	–	–	**1**	5	27	**25**	23	13	**171**	137	144
Proportional interest in costs incurred by Westcoast Energy Inc.	**25**	24	20	**–**	–	–	**–**	–	–	**–**	–	–	**–**	–	–	**25**	24	20

Supplemental Information

Oil and Gas Landholdings

Petro-Canada's oil and natural gas rights at December 31, 1991, consisted of 32.3 million gross acres and 20.1 million net acres, of which 21.9 million gross acres and 15.1 million net acres are located in Canada. Approximately 55 per cent of Petro-Canada's net conventional landholdings in the Canadian Provinces are located in Alberta, approximately 31 per cent are located in British Columbia and approximately 14 per cent are located in Saskatchewan and Manitoba.

	Developed Lands[1]			Undeveloped Lands[2]			Total		
	1991	1990	1989	**1991**	1990	1989	**1991**	1990	1989
	gross/net[3,4]			gross/net (millions of acres)			gross/net		
Canadian Provinces									
Alberta									
Conventional	**2.5/1.1**	2.8/1.1	3.2/1.3	**1.5/0.9**	1.6/1.0	1.9/1.1	**4.0/2.0**	4.4/2.1	5.1/2.4
Oil sands	**0.5/0.1**	0.5/0.2	0.5/0.2	**1.8/0.6**	1.8/0.6	1.9/0.7	**2.3/0.7**	2.3/0.8	2.4/0.9
British Columbia	**0.8/0.5**	0.8/0.5	0.9/0.5	**0.8/0.6**	1.1/0.7	1.2/0.8	**1.6/1.1**	1.9/1.2	2.1/1.3
Saskatchewan/Manitoba	**0.3/0.1**	0.3/0.1	0.2/0.1	**0.5/0.4**	0.6/0.4	0.6/0.5	**0.8/0.5**	0.9/0.5	0.8/0.6
Total Western Provinces	**4.1/1.8**	4.4/1.9	4.8/2.1	**4.6/2.5**	5.1/2.7	5.6/3.1	**8.7/4.3**	9.5/4.6	10.4/5.2
Frontier Canada									
East Coast offshore[5]	**–/–**	-/-	-/-	**1.7/0.7**	1.6/0.9	1.7/0.7	**1.7/0.7**	1.6/0.9	1.7/0.7
Eastern Arctic[6]	**–/–**	-/-	-/-	**4.0/4.0**	4.0/4.0	4.0/4.0	**4.0/4.0**	4.0/4.0	4.0/4.0
Arctic Islands[7]	**–/–**	-/-	-/-	**0.5/–**	0.5/–	0.5/–	**0.5/–**	0.5/–	0.5/–
Beaufort Sea and Mackenzie Delta	**–/–**	-/-	-/-	**1.1/0.2**	2.1/0.3	2.3/0.3	**1.1/0.2**	2.1/0.3	2.3/0.3
Northwest Territories	**–/–**	-/-	-/-	**0.1/0.1**	0.1/0.1	0.8/0.6	**0.1/0.1**	0.1/0.1	0.8/0.6
West Coast offshore[6]	**–/–**	-/-	-/-	**5.8/5.8**	5.8/5.8	5.8/5.8	**5.8/5.8**	5.8/5.8	5.8/5.8
Total	**–/–**	-/-	-/-	**13.2/10.8**	14.1/11.1	15.1/11.4	**13.2/10.8**	14.1/11.1	15.1/11.4
International[8]	**–/–**	-/-	-/-	**10.4/5.0**	17.9/9.9	11.7/6.7	**10.4/5.0**	17.9/9.9	11.7/6.7
Total	**4.1/1.8**	4.4/1.9	4.8/2.1	**28.2/18.3**	37.1/23.7	32.4/21.2	**32.3/20.1**	41.5/25.6	37.2/23.3

[1] Developed lands refers to areas in which Petro-Canada has an interest in producing wells or wells capable of production.
[2] Undeveloped lands refers to areas, other than developed lands, in which Petro-Canada has rights to explore for oil and natural gas.
[3] Gross acres includes the interests of others.
[4] Net acres excludes the interests of others.
[5] Frontier Canada East Coast offshore undeveloped lands includes approximately 0.7 million gross acres and approximately 0.2 million net acres of Commercial and Significant Discovery Areas in the Hibernia, Terra Nova and other East Coast oil fields.
[6] Exploration is not currently permitted in the eastern Arctic and off the coast of western Canada pending environmental impact assessments.
[7] Excludes Panarctic Oils Limited's landholdings, which consisted of approximately 0.8 million gross acres and approximately 0.3 million net acres as at December 31, 1991, almost all of which are undeveloped lands. Petro-Canada owns 52.7 per cent of Panarctic Oils Limited.
[8] At December 31, 1991, Petro-Canada's international landholdings included lands in Colombia, Myanmar, Vietnam and Yemen. In 1991, Petro-Canada withdrew from Ecuador, Malaysia, Pakistan and Papua New Guinea.

Supplemental Information

Net Reserves of Crude Oil, Natural Gas and Sulphur

Crude oil and field natural gas liquids

At year-end 1991, prices for benchmark light crude oil were down 38 per cent and prices for benchmark heavy crude oil were down 52 per cent, compared to year-end 1990. The prices for Edmonton light crude and heavy crude at Hardisty were $21.13 and $12.55 per barrel respectively. This resulted in the reclassification of certain reserves from proved to probable, which more than offset reserve additions at Larne and revisions at Cactus Lake and Pembina.

During the year, the Company sold and purchased properties as part of its asset rationalization program. This resulted in a net reduction of proved crude oil and field natural gas liquids reserves of 15.7 million barrels.

At December 31, 1991, Petro-Canada estimates probable reserves before royalties of 131 million barrels attributable to the Company's 25 per cent interest in Hibernia. These reserves will be booked as proved upon implementation of a waterflood program. In September 1991, Petro-Canada announced its intention to sell a minority percentage of its interest in Hibernia although the timing and extent of any such sale is uncertain.

Natural gas

At year-end 1991, prices were down 20 per cent compared to year-end 1990, resulting in the reclassification of certain reserves from proved to probable. The year-end average price for natural gas was $1.22 per thousand cubic feet. Successful drilling programs at Klua, Murray River, North Bubbles and Jedney accounted for over half of the 1991 reserves additions. Asset rationalization in 1991 resulted in a net reduction of reserves of 78.5 billion cubic feet.

	Crude Oil and Field Natural Gas Liquids (millions of barrels)				Natural Gas (billions of cubic feet)	Sulphur (millions of tons)
	Conventional – Western Provinces	Conventional – International	Synthetic Crude Oil and Bitumen[1]	Total		
Net Proved Developed and Undeveloped Reserves after Royalties[2,3]						
Beginning of year 1989	231.8	2.3	249.4	483.5	2 812.2	5.2
Revisions of previous estimates	8.4	–	(26.6)	(18.2)	33.2	–
Improved recovery methods	3.2	–	–	3.2	–	–
Purchase/(sale) of reserves in place	(7.8)	0.9	–	(6.9)	(13.9)	–
Discoveries and extensions	2.5	0.8	–	3.3	38.1	–
Production	(20.4)	(0.6)	(10.2)	(31.2)	(168.7)	(0.3)
End of year 1989	217.7	3.4	212.6	433.7	2 700.9	4.9
Revisions of previous estimates	(1.4)	(0.9)	5.7	3.4	(171.1)	0.7
Improved recovery methods	25.8	–	–	25.8	0.4	–
Purchase/(sale) of reserves in place	1.3	(2.6)	–	(1.3)	(3.8)	–
Discoveries and extensions	2.5	0.1	–	2.6	82.7	–
Production	(19.0)	–	(10.7)	(29.7)	(144.0)	(0.3)
End of year 1990	226.9	–	207.6	434.5	2 465.1	5.3
Revisions of previous estimates[4]	(35.4)	0.9	11.4	(23.1)	(126.3)	(0.2)
Improved recovery methods	–	–	–	–	–	–
Purchase/(sale) of reserves in place	(15.7)	–	–	(15.7)	(78.5)	0.2
Discoveries and extensions	1.9	–	–	1.9	86.9	0.3
Production	(18.2)	–	(11.2)	(29.4)	(157.8)	(0.4)
End of year 1991	**159.5**	**0.9**	**207.8**	**368.2**	**2 189.4**	**5.2**

Supplemental Information

Net Reserves of Crude Oil, Natural Gas and Sulphur (Continued)

	Crude Oil and Field Natural Gas Liquids (millions of barrels)				Natural Gas (billions of cubic feet)	Sulphur (millions of tons)
	Conventional – Western Provinces	Conventional – International	Synthetic Crude Oil and Bitumen[1]	Total		
Net Proved Developed Reserves after Royalties						
End of 1989	204.0	2.6	194.6	401.2	2 031.1	4.4
End of 1990	182.6	–	207.6	390.2	1 726.8	4.7
End of 1991	**121.2**	**–**	**207.8**	**329.0**	**1 571.8**	**4.5**
Net Proved Developed and Undeveloped Reserves before Royalties[2,3]						
End of 1989	274.7	3.4	250.2	528.3	3 351.0	5.8
End of 1990	275.4	–	243.3	518.7	3 024.7	6.2
End of 1991	**194.0**	**1.1**	**227.9**	**423.0**	**2 653.8**	**6.1**

[1] Proved developed reserves of synthetic crude oil are based on an average production rate at Syncrude of 165 500 barrels per day to the year 2013. Proved reserve quantities would increase if additional facilities were constructed or if the operating permit were extended beyond 2013.

[2] Net proved developed and undeveloped reserves after royalties are Petro-Canada's working interest in reserves after the deduction of Crown or other royalties. Such royalties are subject to change by legislation or regulation and can also vary depending on production rates, selling prices and timing of initial production. No reserve quantities have been included to reflect royalty interests Petro-Canada has in various properties.

[3] Proved reserves are the estimated quantities of crude oil, natural gas, natural gas liquids and sulphur which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, including reserves to be obtained by enhanced recovery processes demonstrated to be successful and from that portion of an area delineated by drilling and defined by gas-oil and/or oil-water contacts in drilled wells or immediately adjacent portions not yet drilled but which can be reasonably evaluated as economically productive, on the basis of geological, geophysical and engineering data. Proved developed reserves are those proved reserves that are expected to be recovered from existing wells or facilities. Proved undeveloped reserves are proved reserves which are not recoverable from existing wells or facilities, but that are expected to be recovered through additional development drilling or through the upgrading of existing or additional new facilities.

[4] Revisions resulting from the application of year-end product prices and uninflated operating and expected development costs as at year end to recoverable reserve estimates are included in 1991 revisions to previous estimates. Prior to 1990, Petro-Canada estimated its proved reserves based on minimum economic production rates expected under future economic conditions.

Supplemental Information

Refining by Locations

Petro-Canada owns and operates four refineries, the Lake Ontario, Edmonton, Port Moody and Montreal refineries, which produce a full slate of refined petroleum products, including gasolines, diesel fuels, heating oils, aviation fuels, heavy fuel oils, asphalts, lubricants and petrochemical feedstocks.

In January 1992, Petro-Canada announced that, in order to improve profitability, it is mothballing refining units located at Port Moody and the Mississauga plant of the Lake Ontario Refinery, and will sell or possibly joint venture its Montreal refinery. The Company will also pursue joint venture options for its lubricants operation at Mississauga.

	Average volumes of crude oil processed per calendar day in the year ended December 31[1]					Daily rated capacity as at December 31, 1991[2,3]
	1991	1990	1989	1988	1987	
	(thousands of cubic metres)					
Lake Ontario, Ontario	13.7	15.2	17.0	15.6	16.0	19.4
Edmonton, Alberta	13.9	13.9	15.6	14.7	13.7	18.4
Montreal, Quebec[4]	10.6	12.2	11.8	10.8	11.4	13.9
Taylor, British Columbia[5]	0.9	2.3	2.1	1.9	1.8	–
Port Moody, British Columbia[6]	2.3	–	–	4.9	4.8	5.9
Moose Jaw, Saskatchewan[7]	–	–	–	0.6	0.7	–
Total	41.4	43.6	46.5	48.5	48.4	57.6

[1] For refineries which closed or recommenced processing crude oil part way through the year, average daily volumes are calculated as if the refinery had operated all year. As a result, actual daily volumes will be greater than those shown in the table.
[2] Daily rated capacity is based on calendar days and definite specifications as to types of crude oil, the products to be obtained and the refinery process required. Variations in these factors may result in actual capacity being higher or lower than rated capacities.
[3] Petro-Canada's average rated capacity utilization was 74 per cent in 1991 compared to 80 per cent in 1990. Average refinery utilization takes into account, where applicable, changes in refinery crude capacity that occurred during the year.
[4] Commencing in 1988, the Montreal refinery processing volumes include partially processed feedstock supplied by the lubricants plant of the Lake Ontario Refinery.
[5] The Taylor refinery was closed in July 1991. Daily rated capacity of this refinery was 2 500 cubic metres.
[6] As a result of the operational integration of the Edmonton and Port Moody facilities, the Port Moody processing volumes were included in the volumes for the Edmonton refinery during 1989 and 1990. Port Moody recommenced processing crude oil in June 1991.
[7] The Moose Jaw asphalt plant was sold in April 1989.

Supply Information

Petro-Canada obtains its crude oil and other refinery feedstock requirements primarily from purchases in domestic markets. Petro-Canada's 1991 gross crude oil production represented approximately one third of the Company's refinery requirements.

	Average volumes of crude oil processed per calendar day in the year ended December 31[1]				
	1991	1990	1989	1988	1987
	(thousands of cubic metres)				
Net domestic supply[2]	30.8	36.1	40.1	45.3	43.9
Net foreign purchases[3]	10.6	7.5	6.4	3.2	4.5
Processed by Petro-Canada	41.4	43.6	46.5	48.5	48.4
Processed for others	(13.1)	(12.4)	(13.4)	(14.3)	(14.5)
Processed by others	10.5	10.6	10.6	10.7	10.7
Total Petro-Canada requirements	38.8	41.8	43.7	44.9	44.6

[1] For refineries and processing agreements acquired part way through a year, average daily volumes are calculated as if the acquisition had occurred at the start of the year and had operated all year at the same level as that following the acquisition. Due to seasonal variations, the average daily volumes shown will not necessarily be indicative of normal full-year refinery operations.
[2] Net domestic supply consists of Petro-Canada's net domestic production plus purchases of domestic crude oil less the Company's domestic and export sales of crude oil. In addition, it includes crude oil supplied by others for processing.
[3] Foreign purchases increased in 1991, primarily due to the shutdown of the pipeline from Sarnia to Montreal and the need to replace Western Canadian crude oil normally shipped through that line. This change in source of supply has not had a material financial impact on the Company.

Five Year Financial and Operating Summary

(stated in millions of dollars, unless otherwise indicated)

Consolidated	1991	1990	1989	1988	1987
Summary of Earnings (Loss)					
Revenue	$ 4 961	$ 5 873	$ 5 026	$ 4 801	$ 5 079
Expenses	5 160	5 534	4 869	4 822	4 776
	(199)	339	157	(21)	303
Unusual Items	(770)	–	(92)	(20)	–
Provision for (recovery of) income taxes	(371)	163	49	31	175
Net earnings (loss) before dividends on redeemable preferred shares	(598)	176	16	(72)	128
Dividends on redeemable preferred shares	–	–	–	10	41
Net earnings (loss) after dividends on redeemable preferred shares	$ (598)	$ 176	$ 16	$ (82)	$ 87
Summary of Statement of Changes in Financial Position					
Operating activities					
Cash flow from operations	$ 292	$ 621	$ 452	$ 607	$ 767
Other	(18)	(20)	(26)	(23)	(11)
Decrease (increase) in operating working capital	108	(307)	(22)	270	(173)
	382	294	404	854	583
Investing activities	(300)	(689)	(392)	(850)	(586)
Financing activities and dividends	(130)	404	(69)	72	104
(Decrease) increase in cash and short-term deposits	$ (48)	$ 9	$ (57)	$ 76	$ 101
Summary of Balance Sheet					
Assets					
Current assets	$ 1 330	$ 1 821	$ 1 557	$ 1 420	$ 1 676
Property, plant and equipment, net	4 084	4 778	4 626	4 617	4 492
Investments and other assets	620	679	560	622	577
Total	$ 6 034	$ 7 278	$ 6 743	$ 6 659	$ 6 745
Liabilities and shareholders' equity					
Current liabilities					
Short-term debt	$ 118	$ 705	$ 716	$ 974	$ 319
Other current liabilities	869	1 146	1 189	1 019	1 093
Long-term debt	1 531	1 537	1 232	1 036	744
Deferred credits	459	367	399	373	307
Deferred income taxes	564	941	914	935	950
Redeemable preferred shares	–	–	–	–	831
	3 541	4 696	4 450	4 337	4 244
Shareholders' equity	2 493	2 582	2 293	2 322	2 501
Total	$ 6 034	$ 7 278	$ 6 743	$ 6 659	$ 6 745
Average Capital Employed	$ 5 649	$ 5 843	$ 5 597	$ 5 646	$ 5 510

Five Year Financial and Operating Summary

(stated in millions of dollars, unless otherwise indicated)

Consolidated (Continued)	1991	1990	1989	1988	1987
Financial Indicators (per cent)					
Performance					
Cash flow return on capital employed	7.3	13.6	10.4	12.2	14.8
Return on capital employed	(8.5)	5.9	2.6	0.1	3.2
Return on equity	(23.6)	7.2	0.7	(3.5)	3.7
Liquidity and Leverage					
Current ratio (times)	1.3	1.0	0.8	0.7	1.2
Cash flow to debt	17.7	27.7	23.2	29.7	36.6
Interest coverage (times)					
– earnings basis	(3.6)	2.2	1.3	0.6	2.3
– cash flow basis	2.3	3.7	3.3	4.6	5.4
Debt to capital employed	31.9	36.6	35.1	35.6	35.1
Debt to debt plus equity	39.8	46.5	45.9	46.4	45.2
Expenditures on Property, Plant and Equipment and Exploration					
Resources division	$ 341	$ 393	$ 334	$ 612	$ 335
Products division	287	221	209	161	122
Corporate and other	24	29	25	29	29
Total	$ 652	$ 643	$ 568	$ 802	$ 486
Acquisitions	$ –	$ 235	$ –	$ –	$ –
Reinvestment Ratio (times)	1.03	1.11	0.87	1.42	0.81
Employees (number at year end)					
Petro-Canada	6 213	6 353	6 468	7 373	7 204
ICG Propane	1 405	1 488	–	–	–
Other subsidiaries	1 906	1 965	2 329	2 345	2 102
Total	9 524	9 806	8 797	9 718	9 306
Shareholders' Data					
Average common shares outstanding (millions)	194.1				
Common shares outstanding at year end (millions)	215.3				
Publicly held common shares at year end (millions)	42.0				
Share prices (dollars)[2]					
– at year-end	9½				
– range during the year	13¼ - 9				
Shares traded (millions)[3]	32.3				

Resources Division	1991	1990	1989	1988	1987
Annual Operating Revenues					
Crude oil and field natural gas liquids					
Conventional crude oil	$ 271	$ 379	$ 356	$ 307	$ 413
Synthetic and bitumen	236	275	207	175	211
Field natural gas liquids	57	66	48	46	57
	564	720	611	528	681
Natural gas	219	221	246	222	203
Sulphur	16	17	21	23	25
Natural gas liquids from straddle plants including ethane	166	200	167	152	145
Other	104	156	106	64	84
Total	$ 1 069	$ 1 314	$ 1 151	$ 989	$ 1 138

Five Year Financial and Operating Summary

(stated in millions of dollars, unless otherwise indicated)

Resources Division (Continued)	1991	1990	1989	1988	1987
Earnings (loss) from operations	$ 31	$ 199	$ 84	$ (113)	$ 89
Unusual items	(95)	–	–	(22)	–
Net Earnings (Loss)	$ (64)	$ 199	$ 84	$ (135)	$ 89
Cash Flow from Operations	$ 303	$ 480	$ 374	$ 406	$ 566
Expenditures on Property, Plant and Equipment and Exploration					
Exploration					
Frontier	$ 8	$ 14	$ 7	$ 47	$ 36
Western provinces	85	90	99	129	101
International	45	45	51	23	12
Development					
Frontier	64	15	5	7	5
Western provinces	81	94	104	158	101
International	–	–	–	3	–
Oil sands					
Syncrude	25	23	13	42	44
Other	1	5	27	96	35
Marketing and other	9	12	5	6	6
Property acquisitions	23	95	32	101	–
	341	393	343	612	340
Petroleum Incentive Program grants	–	–	9	–	5
Total	$ 341	$ 393	$ 334	$ 612	$ 335
Daily Production (net, before royalties/after royalties)					
Crude oil (thousands of barrels)					
Conventional crude oil	48.5/40.1	52.0/42.9	59.1/48.5	63.2/51.0	63.5/50.7
Synthetic and bitumen	31.8/31.2	30.1/29.5	28.4/27.8	28.6/28.1	26.6/26.0
Field natural gas liquids	12.2/9.8	12.2/9.2	12.9/9.5	13.4/9.7	13.2/10.0
Total	92.5/81.1	94.3/81.6	100.4/85.8	105.2/88.8	103.3/86.7
Natural gas liquids production from straddle plants including ethane (thousands of barrels)	34.0/34.0	42.4/42.4	44.8/44.8	40.4/40.4	39.6/39.6
Natural gas (millions of cubic feet)					
including injectants (before royalties)	523.9	497.5	573.1	485.2	434.8
excluding injectants	507.9/416.0	484.0/394.7	556.4/448.4	471.5/382.1	424.9/342.9
Sulphur (thousands of tons)	1.1/0.9	1.1/0.9	1.0/0.8	1.0/0.8	0.9/0.8
Average sale prices					
Conventional crude oil, bitumen and field natural gas liquids ($ per barrel)	17.58	23.00	18.58	15.49	20.83
Natural gas ($ per thousand cubic feet)	1.39	1.53	1.48	1.60	1.62
Average lifting cost ($ per barrel of oil equivalent)	4.74	4.28	4.04	4.10	3.88
Proved Reserves (net, before royalties/after royalties)					
Crude oil and field natural gas liquids (millions of barrels)	423.0/368.2	518.7/434.5	528.3/433.7	591.8/483.5	563.0/460.6
Natural gas (trillions of cubic feet)	2.7/2.2	3.0/2.5	3.4/2.7	3.5/2.8	3.4/2.8
Sulphur (millions of tons)	6.1/5.2	6.2/5.3	5.8/4.9	6.2/5.2	5.2/4.3

Five Year Financial and Operating Summary

(stated in millions of dollars, unless otherwise indicated)

Resources Division (Continued)	1991	1990	1989	1988	1987
Oil and Gas Landholdings (gross/net)					
(millions of acres)	32.3/20.1	41.5/25.6	37.2/23.3	36.8/20.8	33.8/20.5
Wells drilled (gross/net)					
Canadian provinces – exploration wells					
Oil	2/2	3/1	9/9	16/13	18/11
Natural gas	7/5	8/6	18/16	31/25	9/5
Dry	5/3	14/12	23/20	29/21	30/23
	14/10	25/19	50/45	76/59	57/39
Canadian provinces – development wells					
Oil	33/7	67/24	93/22	164/88	196/73
Natural gas	55/15	83/28	58/26	87/38	40/26
Oil sands	–/–	-/-	20/6	266/133	75/38
Dry	6/2	7/4	8/4	11/6	19/13
	94/24	157/56	179/58	528/265	330/150
Frontier Canada – exploration wells					
Oil	1/–	-/-	1/-	2/1	3/1
Natural gas	–/–	-/-	1/-	1/-	-/-
Dry	3/1	3/2	-/-	3/1	4/2
	4/1	3/2	2/-	6/2	7/3
International – exploration and development wells					
Oil	–/–	1/1	2/1	1/1	-/-
Natural gas	2/–	-/-	-/-	-/-	-/-
Dry	5/2	9/4	4/2	3/1	2/-
	7/2	10/5	6/3	4/2	2/-
Total	119/37	195/82	237/106	614/328	396/192

Products Division

	1991	1990	1989	1988	1987
Annual Operating Revenues					
Gasolines	$ 1 994	$ 2 395	$ 2 117	$ 2 050	$ 2 240
Distillates	1 250	1 475	1 303	1 284	1 384
Other including petrochemicals	949	1 078	1 022	911	837
Total	$ 4 193	$ 4 948	$ 4 442	$ 4 245	$ 4 461
Earnings (loss) from operations	$ (109)	$ 125	$ 105	$ 101	$ 94
Unusual item	(379)	–	–	–	–
Net Earnings (Loss)	$ (488)	$ 125	$ 105	$ 101	$ 94
Cash Flow from Operations	$ 15	$ 258	$ 237	$ 230	$ 294
Expenditures on Property, Plant and Equipment					
Refining	$ 81	$ 89	$ 115	$ 82	$ 49
Marketing	110	73	94	79	73
MTBE plant	96	59	–	–	–
Total	$ 287	$ 221	$ 209	$ 161	$ 122

Five Year Financial and Operating Summary

(stated in millions of dollars, unless otherwise indicated)

Products Division (Continued)	1991	1990	1989	1988	1987
Marketing					
Petroleum product sales (thousands of cubic metres per day)					
Gasolines	19.9	19.4	20.1	19.4	20.3
Distillates	14.2	15.2	15.8	16.1	16.7
Other including petrochemicals	7.2	8.1	8.5	8.3	8.6
Total	41.3	42.7	44.4	43.8	45.6
Average sale prices for petroleum products ($ per cubic metre)					
Gasolines	275	338	289	290	302
Distillates	241	266	226	218	227
Other including petrochemicals	361	365	329	301	267
Average of all products	278	317	274	266	268
Retail outlets at year end	3 150	3 205	3 295	3 429	3 677
Refining					
Refinery crude capacity at year end (thousands of cubic metres per day)	57.6	54.2	54.2	60.6	64.0
Crude oil processed by Petro-Canada (thousands of cubic metres per day)	41.4	43.6	46.5	48.5	48.4
Average refinery utilization (per cent)[4]	74	80	86	77	76

ICG Propane	1991	1990
Revenue	$ 328	$ 362
Net earnings	3	5
Cash flow from operations	35	30
Expenditures on property, plant and equipment	17	16
Propane sales (millions of litres)	1 234	1 245
Capital employed	240	259

[1] Certain reclassifications have been made to the figures previously reported to reflect subsequent changes in reporting presentation.
[2] Share prices are for trading on the Toronto Stock Exchange.
[3] Total shares traded on the Toronto, Montreal, Vancouver, Alberta and Winnipeg stock exchanges.
[4] Average refinery utilization takes into account, where applicable, changes in refinery crude capacity that occurred during the year.

Quarterly Financial and Stock Trading Information

(unaudited, stated in millions of dollars)

	1991 First Quarter	1991 Second Quarter	1991 Third Quarter	1991 Fourth Quarter	1990 First Quarter	1990 Second Quarter	1990 Third Quarter	1990 Fourth Quarter
Revenue								
Operating	$ 1 284	$ 1 147	$ 1 195	$ 1 180	$ 1 323	$ 1 235	$ 1 426	$ 1 696
Investment and other income	58	22	29	46	55	66	23	49
	1 342	1 169	1 224	1 226	1 378	1 301	1 449	1 745
Expenses								
Crude oil and product purchases	732	637	559	588	592	570	552	787
Producing, refining and marketing	391	396	385	382	369	358	394	397
General and administrative	72	86	72	70	71	79	92	82
Exploration	35	21	23	34	22	42	16	31
Depreciation, depletion and amortization	104	102	97	104	96	89	91	97
Taxes other than income taxes	15	18	17	17	93	103	119	114
Interest on long-term debt	33	31	35	35	34	34	34	35
Other interest	27	22	10	10	30	38	34	39
	1 409	1 313	1 198	1 240	1 307	1 313	1 332	1 582
Earnings (Loss) before Undernoted Items	(67)	(144)	26	(14)	71	(12)	117	163
Unusual Items	(24)	–	(132)	(614)	–	–	–	–
Provision for (Recovery of) Income Taxes	(39)	(47)	(21)	(264)	31	–	67	65
Net Earnings (Loss)	$ (52)	$ (97)	$ (85)	$ (364)	$ 40	$ (12)	$ 50	$ 98
Cash Flow from Operations	$ 62	$ 39	$ 105	$ 86	$ 143	$ 77	$ 179	$ 222
Segmented Net Earnings (Loss)								
Resources	$ 14	$ (13)	$ (81)	$ 16	$ 33	$ 23	$ 45	$ 98
Products	(80)	(56)	30	(382)	25	(2)	70	32
Corporate and Other	14	(28)	(34)	2	(18)	(33)	(65)	(32)
	$ (52)	$ (97)	$ (85)	$ (364)	$ 40	$ (12)	$ 50	$ 98
Share Information								
(unaudited, stated in dollars unless otherwise indicated)								
Net loss per common share			0.40	1.83				
Cash flow from operations per common share			0.49	0.40				
Dividends per common share			0.0325	0.0325				
Share price[1] – High			13⅛	11¼				
– Low			10⅞	9				
– Close (end of period)			11⅛	9½				
Shares traded (millions)[2]			16.5	6.9				

[1] Share prices are for trading on the Toronto Stock Exchange.
[2] Total shares traded on the Toronto, Montreal, Vancouver, Alberta and Winnipeg stock exchanges. In addition to the volume shown for the third and fourth quarters of 1991, 8.9 million shares were traded in June 1991 on an "if as and when issued" basis.

Information for Shareholders and Investors

Transfer Agent

Petro-Canada's transfer agent is the Royal Trust Company. Share certificates may be transferred at any of Royal Trust's corporate trust offices in Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver. Questions relating to share certificates, dividends and estate settlements should be directed to the Royal Trust corporate trust offices in Calgary. The address is: The Royal Trust Company, Corporate Trust Dept., 6th Floor, 333-7th Avenue S.W., Calgary, Alberta, Canada T2P 2Z1. [Telephone (403) 231-1405.]

Annual Meeting

The annual meeting of shareholders will be held at 10:30 a.m. local time on Tuesday, May 5, 1992, at the Jack Singer Concert Hall, Calgary Centre for Performing Arts, 205 – 8th Avenue S.E., Calgary, Alberta.

Dividends

Petro-Canada's Board of Directors has adopted a policy of paying quarterly dividends of $0.0325 ($0.13 per annum) per common share. The Board reviews the policy from time to time in light of the Company's financial position, its financing requirements for growth and other factors. Dividends are normally paid on or about the first day of the months of January, April, July and October. The record dates are normally set approximately four weeks ahead of the dividend payment date. Petro-Canada does not currently offer an automatic dividend reinvestment service.

Stock Trading Symbol

PCA

Stock Exchange Listings

Toronto, Montreal, Vancouver, Alberta and Winnipeg

Information for Shareholders outside Canada

Dividends and/or interest payments made to residents in countries with which Canada has a bilateral tax treaty are subject to Canadian non-resident withholding tax of 15 per cent. The majority of countries are in this category. There is no Canadian tax on gains from the sale of shares or debt instruments owned by non-residents not carrying on business in Canada. Estate taxes or succession duties are not levied by any level of government in Canada.

Investor Relations/Shareholder Communications

Petro-Canada's Investor Relations staff may be contacted by writing to Investor Relations, Petro-Canada, P.O. Box 2844, Calgary, Alberta, Canada T2P 3E3. [Telephone (403) 296-4000 or fax (403) 296-3061.] Investor Relations staff will be pleased to respond to shareholders' and investors' comments and can provide upon request:

- additional annual reports and copies of interim reports;
- copies of the Annual Information Form (AIF) prepared by Petro-Canada for Canadian securities regulators; and
- copies of Form 20-F prepared by Petro-Canada for the U.S. Securities and Exchange Commission.

Board of Directors

†Wilbert H. Hopper, O.C.
Chairman and
Chief Executive Officer
Petro-Canada
Calgary, Alberta

James M. Stanford
President and
Chief Operating Officer
Petro-Canada
Calgary, Alberta

†Alfred E. Barroll
President
A.E. Barroll Resource
Consultants Ltd.
Calgary, Alberta

†*H. Reuben Cohen, O.C., Q.C.
Barrister and Solicitor
Moncton, New Brunswick

***Gail Cook-Bennett**
Executive Vice-President
Bennecon Ltd.
Etobicoke, Ontario

†William McBurney Elliott, Q.C.
Counsel
MacPherson, Leslie & Tyerman
Barristers and Solicitors
Regina, Saskatchewan

***Claude Fontaine, Q.C.**
Senior Partner
Ogilvy Renault
Barristers and Solicitors
Town of Mount Royal, Quebec

Hon. William H. Jarvis, P.C., Q.C.
Lawyer
McCarthy Tétrault
Ottawa, Ontario

***Thomas E. Kierans**
President
and Chief Executive Officer
C.D. Howe Institute
Toronto, Ontario

***Guylaine Saucier, C.M., F.C.A.**
Corporate Director
Montreal, Quebec

†William W. Siebens
President
and Chief Executive Officer
Candor Investments Ltd.
Calgary, Alberta

* Audit Committee member
† Executive Committee member

Senior Officers

Wilbert H. Hopper, O.C.
Chairman and
Chief Executive Officer

James M. Stanford
President and
Chief Operating Officer

Norman F. McIntyre
President
Petro-Canada Resources Division

James Pantelidis
President
Petro-Canada Products Division

Wesley R. Twiss
Senior Vice-President and
Chief Financial Officer

PETRO-CANADA

Dear Shareholder,

The Petro-Canada credit card is just one of the many ways by which Petro-Canada strives to meet the energy requirements of Canadians.

It provides our customers with a sensible, convenient way to take care of all their automotive needs, whether they're travelling close to home or throughout Canada or the United States. Our card is accepted at Petro-Canada and Certigard Personal Car Care stations across Canada and BP and Mobil stations in the United States.

If you do not already enjoy the many benefits of the Petro-Canada card, I invite you to take this opportunity to complete the attached application and return it to us for priority processing.

Non-shareholders are also welcome to use this application.

If you already carry a card, you may want to order additional cards for family members. Knowing that wherever they drive, day or night, they can always pay for fuel or emergency car repairs, will offer you an extra sense of security and peace of mind.

If you have any questions regarding the Petro-Canada card, please call us toll free at 1-800-668-0220 or at 730-2121 if you're calling from Toronto.

Thank you for your continuing support.

Sincerely,

W.H. Hopper
Chairman and
Chief Executive Officer

MAIL POSTE
Postage paid Port payé
Business Reply Réponse d'affaires
0002569099 01

0002569099-M2N6L6-BR01

PETRO-CANADA
PO BOX 46002
STN BRM B
WILLOWDALE ON M7Y 8A2

PETRO-CANADA®

Petro-Canada Personal Credit Card Application

Office use only

- Please print your answers to all questions to enable us to process your application without delay
- Please return the completed application to us in the prepaid envelope provided
- If credit is approved, you can expect to receive your Petro-Canada credit card within 21 days

Personal Data

Title

☐ Mr. ☐ Mrs. ☐ Miss ☐ Ms

First name | Initial(s)

Surname

Address

City/town

Province | Postal code

Telephone number residence ( ) | Telephone number business ( )

Marital status ☐ married ☐ single/widowed ☐ separated ☐ divorced | Age

Full name of spouse (if applicable)

Years at present address ☐ own or buying ☐ live with parents ☐ rent ☐ other

Previous address

City/town

Province | Postal code

Proposed use of Petro-Canada credit card ☐ business ☐ pleasure | Estimated monthly purchases with Petro-Canada credit card $

Licence plate number(s) ☐ car ☐ truck/van

Employment

Present employer name

Present employer address

City/town

Province | Postal code

Length of time with present employer years months | Monthly gross income $

Type of employment ☐ full-time ☐ part-time ☐ self employed ☐ retired

Occupation

Previous employer name (if less than 2 years at above)

Previous employer address

City/town

Province | Postal code

Preferences

Number of cards | Additional names to appear on cards (if applicable)

Additional names (if applicable) | Correspondence desired in ☐ English ☐ French

References

Name of bank/trust company/credit union

Branch address

Account numbers Savings account

Chequing account

Chequing account with interest

Loan

Other oil company accounts

Bank cards

Department store credit cards

Other charge cards

Other Petro-Canada accounts

Office use only

1 2

3 4 5 6

7 8 9 10 11 V S

I hereby request from Petro-Canada Products, a division of Petro-Canada, a credit card and renewals or replacement thereof from time to time. Retention or use of the card by me will constitute acceptance of the terms and conditions of the Petro-Canada master credit card agreement which will accompany the card when issued

I agree that the usual credit inquiries may be obtained in connection with this application and authorize the exchange of the credit information.

Signature Date

13.590(9203)

Recycled paper

Please tear off this strip before inserting application in envelope.

Petro-Canada
P.O. Box 2844
Calgary, Alberta
Canada T2P 3E3

Fax (403) 296-3030

General and media enquiries:
Public Affairs
(403) 296-5850

Investor and analyst enquiries:
Investor Relations
(403) 296-4000

Publié également en français

Design:
Gottschalk+Ash International

Principal photography:
Bernard Bohn

Additional photography:
Ellen Brodylo/Mike Morrow (p. 4)
Peter Christopher (p. 9)

Typesetting:
Centre Typographique

Printing:
Matthews Ingham and Lake, Inc.

Printed using vegetable-based inks, on paper containing a minimum of 50 per cent recycled fibre, including a minimum of 10 per cent post-consumer waste. No varnish is used in printing. Once the glue binding is trimmed off, this paper can again be recycled.

Litho Canada

PETRO-CANADA

1992

ANNUAL REPORT

	1992	1991	1990
Financial *(millions of dollars, unless otherwise indicated)*			
Net earnings (loss)	9	(598)	176
Earnings (loss) from operations	109	(143)	176
Cash flow from operations	517	292	621
Operating and overhead costs	1 548	1 854	1 842
Per common share (dollars)			
Net earnings (loss)	0.04	(3.08)	
Earnings (loss) from operations	0.50	(0.74)	
Cash flow from operations	2.38	1.50	
Dividends (subsequent to July 1991)	0.13	0.065	
Expenditures on property, plant and equipment and exploration	456	652	643
Debt	954	1 649	2 242
Debt to debt plus equity (per cent)	26.5	39.8	46.5
Cash flow return on capital employed (per cent)	12.4	7.3	13.6
Operating			
Crude oil and field natural gas liquids production, net before royalties (thousands of barrels per day)	80	93	94
Natural gas production, net before royalties (millions of cubic feet per day)	517	524	498
Ethane and natural gas liquids production from straddle plants (thousands of barrels per day)	36	34	42
Proved oil and field natural gas liquids reserves, net before royalties (millions of barrels)	417	423	519
Proved natural gas reserves, net before royalties (trillions of cubic feet)	2.4	2.7	3.0
Refined product sales (thousands of cubic metres per day)	43.0	41.3	42.7
Average refinery utilization (per cent)	72	74	80

Corporate Profile

Petro-Canada is the largest Canadian-owned oil and gas company and a leader in the Canadian petroleum industry. □ The Company is organized into two operating divisions, with corporate support staff. Petro-Canada Resources, the 'upstream' business, explores for, produces and markets crude oil, natural gas and natural gas liquids. The 'downstream' business, Petro-Canada Products, refines crude oil and distributes and markets petroleum products. A wholly owned subsidiary, ICG Propane Inc., distributes and markets propane. □ Petro-Canada was established in 1975 as a Crown corporation. In July 1991, the Company was privatized with an Initial Public Offering of common shares and became a fully commercial company operating in the interests of its shareholders and customers. □ About 30 per cent of the shares of Petro-Canada are held by public shareholders. The balance is held by the Government of Canada, which has stated it intends to sell, over time, all of its shares. The Government holds its shares as an investment and does not intervene in the management of the Company. □ Petro-Canada shares trade on all Canadian stock exchanges, under the symbol PCA.

Contents

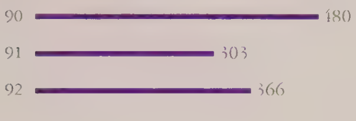
FOCUS

Petro-Canada markedly improved its operating performance in 1992 by sharply cutting operating and overhead costs. The Company increased cash flow by 77 per cent, improved operating earnings by $252 million, and returned net earnings to positive levels, despite the continuing recession and low sales prices for most of the commodities it produces. While rationalizing its assets and downsizing its staff and marketing network, it succeeded in increasing refined product sales volumes and retained most of its oil and gas production and reserve base. Petro-Canada ended 1992 much stronger financially. It reduced debt by nearly $700 million during 1992 and by $1.3 billion since privatization in July 1991. With a renewed focus on high-potential businesses, Petro-Canada has built a solid foundation for sustained value growth and improved profitability.

	Business	1992 Highlights
Resources Division *Western Canada*	■ Explores for, produces and markets crude oil, natural gas and natural gas liquids ■ Reserves total 417 million barrels of crude oil and NGLs and 2.4 trillion cubic feet of natural gas ■ Produces about 4% of Canada's crude oil and 5% of its natural gas, and operates a major NGL straddle plant ■ 12% interest in Syncrude oil sands project	■ Restructured and refocused on four key businesses ■ Reduced ongoing operating and overhead costs by $92 million ■ Made progress in asset rebalancing and rationalization; sold 5% interest in Syncrude, acquired additional interests in Valhalla and Wildcat Hills ■ Added reserves and production capacity through drilling and optimization
Frontier Canada and International	■ Explores for and develops Canadian offshore petroleum resources ■ Owns 25% of the oil discovered off Canada's East Coast ■ Holds 25% interest in the Hibernia oil development project and 44% of the Terra Nova oil discovery ■ Pursues selected oil development opportunities outside Canada	■ Hibernia construction slowed in 1992 during ownership negotiations; completion delayed one year to 1997 ■ Construction is now back at full pace following an agreement in January 1993 for new equity participation
Products Division *Refining*	■ Converts crude oil into products including gasoline, diesel, jet fuel, asphalt and heavy fuel oil ■ Refineries in Quebec, Ontario, Alberta and British Columbia ■ Refines 41 600 cubic metres of crude oil a day, with 19% of Canada's total refining capacity ■ Produces premium lubricants	■ Began implementing plan to reduce refining capacity ■ Further cost reductions ■ Continued improvements in reliability ■ Strong profit growth in lubricants business
Marketing	■ Markets refined products and services through a nationwide network of wholesale and retail outlets ■ Ranks second in retail gasoline sales with an 18% market share ■ Markets high quality lubricants in Canada and internationally	■ Implemented plan to significantly improve efficiency and eliminate one third of marketing outlets ■ Closed or divested 534 retail and 61 wholesale sites ■ Increased total sales volumes 4% despite closures ■ Reduced marketing costs by 11% ■ Began implementing retail strategy based on superior service, low costs
Corporate Activities and Investments	■ Manages financial affairs and supports operating activities ■ Manages investments, including 50% of the Petro-Canada Centre office complex in Calgary ■ Markets propane to industrial, commercial, transportation, residential and remote location sectors through wholly owned ICG Propane Inc.	■ Reduced debt by $695 million and interest costs by $83 million ■ Sold investments in Westcoast Energy Inc. and ISIS ■ Raised $244 million through an issue of treasury shares ■ Completed refinancing of government-backed agency debt ■ Reduced staffing in support functions ■ ICG Propane lowered capital requirements while maintaining a leading retail propane position

Key Statistics | **Industry Outlook** | **1993 Initiatives**

Resources division cash flow
(millions of dollars)



■ Little change expected in oil prices ■ Natural gas prices should show the beginning of a gradual but sustained recovery ■ Natural gas exports likely to increase to meet rising U.S. demand as pipeline expansions come on line ■ Continued emphasis on greater efficiency and enhancement of existing assets

■ Continue to reduce unit costs and improve profitability ■ Exploit existing reserves through infill and horizontal drilling, enhanced recovery and aggressive marketing of natural gas ■ Continue to rebalance the portfolio: acquire higher interests in core properties, divest non-core assets and reduce interest in Syncrude

---

Petro-Canada investment in Hibernia, net of grants

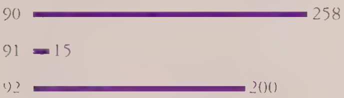
In 1992 – $93 million
In 1993 – $170 million (planned)

■ Hibernia is an important beginning to stimulate further Canadian offshore development ■ The East Coast will be a significant source of light oil reserve additions in the medium and long term, with Hibernia alone adding more than 600 million barrels

■ Proceed with construction of Hibernia production facilities ■ Continue efforts to sell a minority interest in Hibernia and rationalize other East Coast assets to rebalance the portfolio ■ Shift international focus from exploration to development

---

Products division cash flow
(millions of dollars)

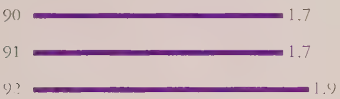


■ Refinery closings will begin to reduce Canada's product supply surplus ■ Pressure to cut costs will continue, even though Canadian refineries are second only to those in the United States in cost efficiency

■ Complete reconfiguration of Lake Ontario and Port Moody refineries, reducing overall daily refining capacity by 12 500 cubic metres and raising utilization above 90% ■ Continue efforts to sell or joint venture Montreal refinery

---

Throughput per retail site
(millions of litres per year)

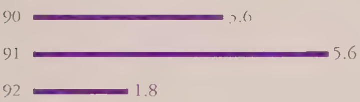


■ Modest improvement expected in refined product demand ■ Pressure on product margins likely to persist

■ Maintain focus on rationalization and efficiency ■ Continue initiatives to retain sales volumes after site closures ■ Fully implement service-based retail strategy ■ Finalize wholesale strategy and begin implementation

---

Debt to cash flow
(times)



■ Low inflation and low interest rates should continue ■ Some volatility in exchange rates likely ■ Propane retail market likely to continue to be squeezed by competitive pressure in gasoline markets

■ Continue to base business plans on conservative forecasts ■ Fund capital investments internally ■ Continue hedging strategies to reduce impact of fluctuations in prices and exchange rates

Petro-Canada made considerable advances in 1992 toward the objectives set out in its 1991 Annual Report.

Petro-Canada will press ahead in 1993 with its strategic initiatives to enhance shareholder value, with these objectives:

Objectives	Progress in 1992
Significantly improve financial performance	■ Improved cash flow by 77% ■ Turnaround to positive earnings from operations of $109 million ■ Cut $306 million from operating and overhead costs ■ Announced staff reductions totalling 1300 positions or 21 per cent
Rebalance the asset portfolio	■ Refocused the Resources division on the four most promising businesses ■ Sold 5% interest in Syncrude ■ Acquired additional interests in a number of strategic oil and gas fields in Western Canada ■ Prepared to reduce refining capacity to balance demand
Divest non-core and underperforming assets	■ Sold investments in Westcoast Energy and ISIS for $348 million ■ Divested Wolf Lake and other non-core oil and gas properties for proceeds of $134 million ■ Closed or divested 534 retail and 61 wholesale outlets
Fund future investments from operating cash flows and divestiture proceeds	■ Funded 1992 capital expenditures entirely from cash flow
Reduce debt to increase financial strength and flexibility	■ Cut debt by $695 million to $954 million ■ Lowered debt to cash flow ratio to 1.8 times ■ Brought debt to debt plus equity ratio within target range at 27 per cent

1993 Objectives

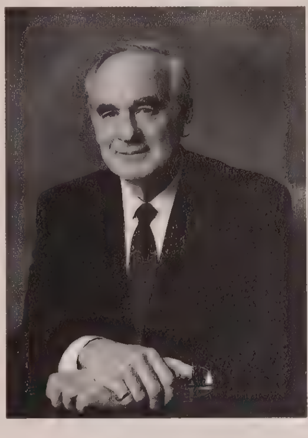
Continue to improve financial results, with particular emphasis on cost control and debt management

Further balance the portfolio to increase short and medium term cash flow while maintaining longer term growth opportunities

Fund investments from cash flow

Maintain financial strength and flexibility

I am pleased to report that in 1992 Petro-Canada made considerable progress in strengthening its financial performance. We moved aggressively in difficult times to improve our strategic focus, shed underperforming assets, drastically cut costs and sharply reduce debt. ▫ We were determined to improve our performance, even in an unfavourable business environment. Despite tough conditions, we reversed the operating losses of 1991 and improved cash flow from operations by 77 per cent. We cut $306 million from our operating and overhead cost base and reduced interest expense by $83 million. ▫ We lowered debt by $695 million, reaching a very competitive debt to debt plus equity ratio of 27 per cent. An issue of treasury shares in December generated $244 million, which we applied to debt. While the availability of new shares softened the price for our shares at year-end, I am confident the resulting improvement in our financial position will be reflected by the market in 1993. ▫ Determined to live within our means, we funded our selective capital expenditures with cash flow from operations. ▫ We are vigorously tightening our business processes to directly link actions to value creation and bring full accountability throughout the Company through performance-based compensation. ▫ One large question mark hung over our heads for much of 1992: the future of the Hibernia project following notice of intention to withdraw by one of the participants. I am very pleased that agreements were reached in January 1993 for new equity participation, permitting the project to proceed. By the end of the nineties, our present share of Hibernia will provide more than 30 000 barrels of daily light oil production at an attractive rate of return, offsetting declining oil production in Western Canada and leading the way for development of our other discoveries off Newfoundland. ▫ Petro-Canada entered 1993 financially strong. We expect substantial sustained benefits from our cost controls, including the staff reduction of 1300 announced early in 1992. We will continue to work hard to improve our competitive position and profitability. ▫ Sincere thanks are due to Bill Hopper, who stepped down in January 1993 after 14 years as chairman and chief executive officer. He will be remembered for his key role in the development of Petro-Canada. We will build on his contribution as we press forward to increase profits and value for our shareholders. ▫ On February 17, 1993, the Board of Directors appointed a new chairman. Ed Barroll, a director since 1984, brings to the position a wealth of experience earned during a successful 42-year career in the oil industry. ▫ In closing, I want to pay tribute to our employees. They worked hard to improve asset productivity and cut costs through a very tough year, despite the stress of reorganization and downsizing. Their efforts were crucial in our turnaround, and their dedication gives us every reason to expect growing success for Petro-Canada in the future.



J.M. Stanford
President and Chief Executive Officer

Resources Division

Strategy In May, the Company announced it would refocus and resize the Resources division to those businesses with the best prospects for future profitability. Key elements of this strategy are: ► Concentrate future investment in Western Canada light oil, natural gas, natural gas liquids and Grand Banks light oil ► Emphasize Western Canada development with early cash flow potential, reducing long-cycle exploration for the time being ► Continue rationalization to focus on core properties ► Sharply reduce operating costs ► Cut overhead and staff substantially to match the more modest capital expenditure program and more concentrated production base ► Shift international efforts from exploration to development opportunities.

Resources division key results

	1992	1991	1990
Financial (millions of dollars)			
Earnings (loss)			
From operations	149	31	199
Writedown of investment in Syncrude	—	(95)	—
	149	(64)	199
Cash flow from operations	366	303	480
Operating			
Crude oil and field natural gas liquids production, net before royalties *(thousands of barrels per day)*	80	93	94
Natural gas production, net before royalties *(millions of cubic feet per day)*	517	524	498
Ethane and natural gas liquids production from straddle plants *(thousands of barrels per day)*	36	34	42

Cost Reductions Ongoing operating costs were cut by $81 million, or 20 per cent, and overhead by $11 million – largely in the last six months – or 26 per cent on an annualized basis. About half of the improvement represents efficiency gains achieved by employees; the remainder relates to property rationalization. On a barrel of oil equivalent basis (where 12 000 cubic feet of gas = 1 barrel of oil), producing costs were down $1.10 per barrel from 1991. For conventional oil and gas production, costs were cut $0.77 to $6.49 per barrel. Staffing was reduced by 466, with further transitional positions to end in 1993, for a total reduction of 30 per cent from year-end 1991.

Valhalla Petro-Canada achieved a dominant position in its largest light oil property – and an opportunity to add value with a waterflood project – through purchase and swap transactions. These added proved developed reserves of 2.9 million barrels and initial daily production of 830 barrels. The waterflood is expected to add another 15.3 million barrels of reserves and increase production in 1993.

Wildcat Hills Ownership in this core property rose to 64 per cent through the purchase of a 28 per cent interest. Low-risk, long-life gas reserves of 61 billion cubic feet and daily production of 12 million cubic feet were added. Increased ownership improves the Company's marketing position.

Production Optimization More intensive exploitation of existing reserves fully offset the effect of natural decline on production volumes. Horizontal drilling at Brazeau increased daily oil capacity by 800 barrels, while aggressive optimization increased oil production in many other core properties. Overall, oil and field natural gas liquids volumes declined 14 per cent due to asset dispositions. Natural gas volumes were essentially unchanged despite net asset sales, as a result of a focus on optimization and marketing.

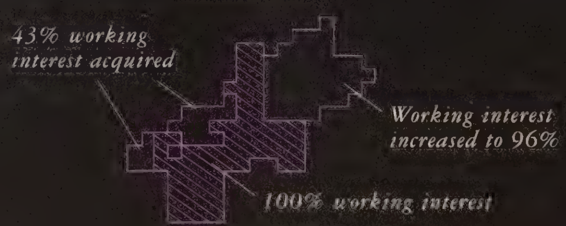
DEVELOPMENT

The Hibernia offshore light oil project is on track for production off Newfoundland in 1997, following the January 1993 agreement to bring in new equity participation. Production should reach 125 000 barrels a day by the end of the nineties. Construction of the production system, including work on the gravity base structure shown above, is well under way at Bull Arm, Nfld. In 1992, the Company invested $93 million in the project, net after grants, in part to develop the construction site and begin fabricating the field production facilities. Hibernia is economically attractive for Petro-Canada. However, as part of its portfolio rebalancing strategy, it seeks to sell a minority portion of its 25 per cent interest.

Hibernia Production System

CONC ENTR ATION *Petro-Canada is focusing resources on core properties where it has a strong ownership position and good opportunities to add value. Reservoir engineer Jennifer Thompson and operator Ken Peterson check on one of 27 new oil production wells being drilled at Valhalla, Alberta, where Petro-Canada gained 80 per cent control and an opportunity to apply its waterflood expertise through purchases and swaps in 1992. In year four of a five-year asset rationalization program, the disposition of non-core conventional properties realized $134 million, which was balanced by $95 million of acquisitions of additional interests in core areas. About 80 per cent by value of non-core conventional assets have now been divested. Future conventional asset dispositions will be offset by acquisitions in core areas to enhance the production base.*

Valhalla Oil Field



Golden Lake This heavy oil waterflood project was fully on stream by year end. The initial reservoir response was as expected, with volumes up 10 per cent in the fourth quarter over 1991 averages.

Drilling and Reserve Additions Petro-Canada participated in 99 wells in Western Canada, resulting in 49 oil (25 net) and 41 gas (6 net) wells. This program added reserves of 3.3 million barrels of oil (before royalties). Success ratios were 64 per cent for exploratory and 95 per cent for development drilling in Western Canada. At Shekilie, 2.2 million barrels were added from three successful oil wells through the application of 3-D seismic expertise. Despite net divestments during the year of 65 million barrels of oil and natural gas liquids (before royalties), year-end reserves were down by only 6 million barrels. Positive oil revisions totalled 85 million barrels, due to additions at Syncrude, more favourable oil economics and technical studies.

Syncrude The Syncrude oil sands project achieved record production in 1992, providing an average of 23 600 barrels a day to Petro-Canada. As part of its plan to rebalance its portfolio, the Company sold a 5 per cent interest in Syncrude during the year for gross proceeds of $132 million.

Cogeneration Sales Natural gas marketing successes included three long-term contracts with cogeneration customers for new sales of 55 million cubic feet a day, starting between 1992 and 1994. These sales will enhance the stability of Petro-Canada's sales volumes and prices.

Empress Natural gas liquids made a strong cash flow contribution, mostly from the Empress straddle plant. To improve reliability, one of the main gas turbines was replaced in the fourth quarter. A second will be replaced in 1993.

International Wells were drilled in Myanmar, Vietnam and Yemen during the year, but none encountered commercial hydrocarbons. Operations in Myanmar will end in 1993. The Company is evaluating a development opportunity in an oil field in Russia.

Plans for 1993 The Resources division will push forward with its highly-focused development strategies. The 1992 successes in asset rationalization and exploitation should result in lower unit costs, higher oil production and level gas production in 1993.

Products Division

Strategy In January 1992, Petro-Canada announced a major plan to rationalize the Products division to improve profitability. This action was taken following a comprehensive review of its competitive position in an industry characterized by low demand for refined products, excess Canadian refining capacity and low throughputs in marketing facilities. The Company is now: ► Reducing refining capacity by reconfiguring its Lake Ontario and Port Moody facilities ► Eliminating the least efficient third of the marketing network ► Cutting overhead to match the needs of its future asset configuration ► Pursuing the sale or joint venture of the Montreal refinery.

Cost Reductions Implementing the strategic plan and accelerating existing cost reduction programs have already cut costs dramatically. The regional business unit structure has been a key element in successful cost reduction. Each business unit has implemented efficiencies appropriate to its asset base and competitive situation, while substantial savings were also achieved in support functions. Operating and overhead costs were cut $182 million, or 14 per cent. Overhead costs were cut by $64 million and product sales expenses by $64 million. Operating efficiencies at refineries and the closure of the Taylor refinery in 1991 saved $54 million. Further cost savings are expected in 1993 as the full impact is felt of refinery and marketing rationalization and announced staff reductions totalling 660.

Products division key results

	1992	1991	1990
Financial (millions of dollars)			
Earnings (loss)			
From operations	30	(109)	125
Restructure and reorganization	—	(379)	—
	30	(488)	125
Cash flow from operations	200	15	258
Operating			
Petroleum product sales *(thousands of cubic metres per day)*	43.0	41.3	42.7
Crude oil processed by Petro-Canada *(thousands of cubic metres per day)*	41.6	41.4	43.6
Average refinery utilization *(per cent)*	72	74	80

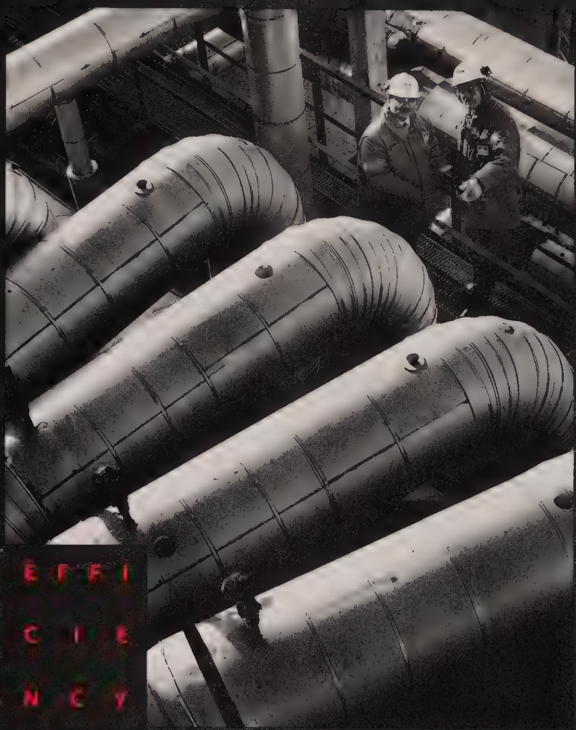
Marketing Petro-Canada closed or divested 534 retail and 61 wholesale sites during the year. Despite these closures, Petro-Canada's refined products daily sales volumes rose 4.1 per cent, while the industry as a whole gained just 1.5 per cent.

Lubricants Petro-Canada's lubricants business provides a good example of the results expected from the highly-focused business unit structure. By ensuring reliability and efficiency in manufacturing, targeting higher profitability market segments and managing costs throughout the business, lubricants significantly improved its performance. Volumes were up 19 per cent and cash flow from operations rose by $15 million.

Inventory Management Crude and refined product inventory volumes at the end of 1992 were 15 per cent lower than a year earlier. This improvement came from an integrated approach to optimization and working capital management within the regional business units.

Wildlands Park Despite financial restraint, Petro-Canada remains committed to environmental responsibility. For example, with the Rotary Club, Petro-Canada is transforming a former Calgary refinery site into a 78 acre wildlands park. This park, featuring varied wildlife habitats, will provide recreation and educational opportunities for the community. Some 40 000 trees and shrubs will be planted, beginning in 1993.

Plans for 1993 The Products division will aggressively pursue its strategies throughout 1993. Completing the refinery reconfigurations at Lake Ontario and Port Moody and closing additional retail and wholesale sites will further improve the division's cost structure and refinery utilization. Even with no improvement in the competitive environment, this strategy is expected to yield higher returns in 1993 and beyond.



EFFICIENCY

Cutting 12 500 cubic metres a day of surplus refining capacity will improve utilization, bringing supply into balance with demand from a smaller but more efficient marketing network. Plans are well advanced to close processing units at Port Moody, British Columbia, in April, and at the Mississauga plant of the Lake Ontario refinery in the second half of 1993. Overall refinery utilization should rise from 72 per cent to over 90 per cent. The Mississauga plant will continue to manufacture and package lubricants and asphalt, while Port Moody will handle refined products from the Edmonton refinery. Size-the-business coordinator Henry Marr and project manager Kevin Barry are part of the team that is reconfiguring the Mississauga plant.

Refineries

The Company's business activities constitute two operating divisions and a corporate segment for purposes of financial reporting. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements on pages 25 to 40. A glossary of financial terms and ratios is available on page 24.

Results of Operations

Petro-Canada's results are significantly influenced by the business environment, in particular refined product margins, crude oil and natural gas prices and demand for natural gas and refined products.

Business Conditions in 1992

The results of the Resources division are largely dependent on the price of crude oil and natural gas. Compared to the volatility that characterized crude prices in the previous two years, international oil prices remained reasonably stable during 1992. The benchmark West Texas Intermediate crude oil price averaged U.S. $20.56 per barrel in 1992, down nearly a dollar from U.S. $21.52 in 1991. This decline was, however, more than offset by the weakening in the Canada/U.S. dollar exchange rate as the Canadian price for benchmark crude oil averaged $23.52 per barrel compared to a 1991 average of $23.37.

Canadian heavy crude oil prices experienced a noticeable improvement relative to 1991. The start-up of a new coker at a refinery in Billings, Montana, and of the Bi-Provincial upgrader at Lloydminster played a major role in stimulating demand for Canadian heavy crudes and boosting heavy crude prices. As a result, the price for the benchmark Canadian heavy crude oil averaged $17.00 per barrel in 1992, 14.8 per cent higher than the 1991 average price of $14.81 per barrel.

The Alberta average plant-gate natural gas price increased approximately 5 per cent to $1.36 per thousand cubic feet on the strength of significantly higher spot prices in late 1992. On the other hand, British Columbia prices were weaker than in 1991. Total Canadian natural gas sales in 1992 grew by 11 per cent, mostly as a result of increased exports to the United States. Export sales expanded in excess of 350 billion cubic feet, or 21 per cent, to a record 2 trillion cubic feet. Sales to the domestic market increased by about 3 per cent relative to 1991.

The key factors which influence the Products division's financial results are demand for refined petroleum products and the associated utilization of refining capacity, market competition, and crude oil and refined product prices. After falling by almost 10 per cent over the preceding two years, Canadian refined petroleum product sales increased by about 1.5 per cent in 1992. This moderate improvement in product sales, together with a small reduction of refining capacity in Western Canada and significant industry-wide cost reductions, led to a modest increase in industry profitability.

Sensitivities affecting pre-tax cash flow from operations in 1992

Factor	1992 Average	Increase	Approximate increase (decrease) in pre-tax cash flow from operations (millions of dollars)[1]
Resources division			
W.T.I. benchmark crude oil price	U.S. $20.56 per barrel	U.S. $1.00 per barrel	22
Price received for natural gas	$1.28 per thousand cubic feet	$0.10 per thousand cubic feet	15
Production of conventional crude oil	42 900 barrels per day	1 000 barrels per day	6
Production of natural gas available for sale	507 million cubic feet per day	10 million cubic feet per day	3
Products division [2]			
Average sale price of gasoline [3]	25 cents per litre	1 cent per litre	75
Crude oil and product purchases	$167.78 per cubic metre	$1.00 per cubic metre	(16)
Petroleum product gross margin [4]	4.6 cents per litre	0.1 cent per litre	16
Corporate			
Canada/U.S. dollar exchange rate	$0.83	$0.01	(7)

[1] The impact of a change in one factor may be compounded or offset by changes in the factors noted and in other factors. This table does not consider the impact of any interrelationship between the factors. The application of these factors may not necessarily lead to an accurate prediction of future results of operations. The Company undertakes risk management initiatives from time to time which may affect these sensitivities.

[2] Impacts related to the Products division are independent of those related to the Resources division.

[3] Average sale price of gasoline does not include federal excise taxes and provincial motor fuel taxes.

[4] Revenue minus cost of sales.

Recent Developments

Hibernia On February 4, 1992, Gulf Canada Resources (Gulf) announced its intention to withdraw from the Hibernia offshore development project. Petro-Canada and other owners slowed work on the project while seeking a purchaser for Gulf's interest. On January 15, 1993, an arrangement to resolve the ownership issue was announced, returning the Hibernia project to a secure financial footing and enabling construction to proceed to meet a 1997 start-up date.

Hibernia is a technically sound project with attractive economics for Petro-Canada. If the Company retains its current 25 per cent interest in Hibernia, Petro-Canada's share of total Hibernia expenditures up to production start-up is expected to be approximately $1 billion, net of government grants. The Company expects to fund these expenditures with internally generated cash flow and up to $415 million of Government-guaranteed loans, of which $86 million were drawn down at December 31, 1992. Capital expenditures required after start-up are expected to be financed with cash flow from the project. Petro-Canada believes that its current commitment in the Hibernia project will not increase its overall level of debt.

The Company has announced that it would be willing to sell a minority percentage of its interest in Hibernia to provide a more balanced portfolio of assets, although the extent and timing of any such sale is uncertain. Depending on its terms, such a sale could result in a writedown of a part of Petro-Canada's investment in the project.

Executive Changes On January 28, 1993, Petro-Canada announced the appointment of Mr. J.M. Stanford as President and Chief Executive Officer. Mr. Stanford had been Petro-Canada's President and Chief Operating Officer for three years and has been with the Company for the past 14 years. Mr. W.H. Hopper was relieved of his duties as Chairman and Chief Executive Officer on that date.

On February 17, 1993, Mr. A.E. Barroll was appointed Chairman of the Board of Petro-Canada. Mr. Barroll became a member of Petro-Canada's Board of Directors on December 21, 1984, and served on the Executive Committee of the Board since 1988. Mr. Barroll has held a number of executive positions in the oil industry during a career which spans 42 years.

Consolidated Results

Consolidated financial results

(millions of dollars)	1992	1991	1990
Revenue	4 718	4 961	5 873
Earnings (loss) from operations	109	(143)	176
Unusual items:			
Restructure and reorganization	(39)	(379)	—
(Loss) gain on retirement of long-term debt	(33)	19	—
Loss on disposal of investments	(28)	—	—
Writedown of investment in Syncrude	—	(95)	—
Net earnings (loss)	9	(598)	176
Net earnings (loss) per common share *(dollars)* [1]	0.04	(3.08)	
Cash flow from operations	517	292	621
Cash flow from operations per common share *(dollars)* [1]	2.38	1.50	
Return on capital employed			
– from operations *(per cent)*	3.7	0.0	5.9
– after unusual items *(per cent)*	1.5	(8.5)	5.9
Cash flow return on capital employed *(per cent)*	12.4	7.3	13.6

[1] *Based on weighted average number of common shares outstanding.*

Accounting Change Effective January 1, 1992, Petro-Canada changed from the first-in, first-out (FIFO) to the last-in, first-out (LIFO) method of accounting for crude oil and product inventories. This change to the LIFO method, which is described in Note 2 to the consolidated financial statements, permits a better matching of the current cost of product with current revenues in the determination of the Company's results. The change also provides a better basis for comparing results between Petro-Canada and other large integrated oil and gas companies, the majority of which use the LIFO method. The change had the effect of increasing 1992 net earnings by $13 million and cash flow from operations by $23 million. Although inventory was reduced to low levels at year-end 1992, such levels are sustainable over the long term. However, seasonal variations in inventory volumes will occur in future periods.

1992 compared to 1991 The Company's consolidated revenue in 1992 was $4 718 million, a decrease of 5 per cent from 1991. The decrease resulted primarily from the impact of lower unit prices in the Products division, reflecting unfavourable business conditions. Petro-Canada's after-tax earnings from operations in 1992 were $109 million, or 50 cents per share, a significant turnaround from a loss of $143 million in 1991. After-tax gains on asset sales were $24 million in 1992, up from $8 million in 1991.

All major areas of operations reported better results than in 1991. Resources division after-tax operating earnings rose by $118 million and Products division operating results improved by $139 million, although low margins continue to limit earnings.

After unusual items, net earnings in 1992 were $9 million, or 4 cents per share, compared to a loss of $598 million in 1991. On an after-tax basis, the 1992 unusual items consisted of a charge of $39 million in respect of staff reductions in the Resources division and corporate support functions, a $33 million charge to earnings related to the repayment of long-term debt, and a net loss of $28 million from the sale of Petro-Canada's 37 per cent interest in Westcoast Energy Inc. (Westcoast) and 27 per cent interest in Internationale de Services Industriels et Scientifiques (ISIS).

Cash flow rose 77% compared with 1991

Cash flow from operations for 1992 was up 77 per cent from 1991 and totalled $517 million, or $2.38 per share.

A $306 million cost reduction was the key factor in the earnings and cash flow improvements in 1992. Through concerted efforts, the Company cut ongoing operating and overhead costs by $272 million in 1992. The sale of Petro-Canada's interest in the Wolf Lake oil sands project resulted in an additional one-time reduction in operating costs of $34 million, as provisions established in prior years for future site restoration expenses were no longer required. The Company has identified as a priority objective that it will continue pursuing cost management strategies.

Total operating and overhead expenses were cut 17%

The cost of crude oil and product purchases declined to $2 358 million on the LIFO basis, from $2 516 million in 1991 calculated on the FIFO accounting method. Crude oil prices were higher early in 1991 when inventory was built as a hedge against possible supply disruptions from the Gulf War. Depreciation, depletion and amortization charges decreased by 4 per cent to $391 million, mainly due to asset sales. Exploration expenses were reduced by 50 per cent to $56 million, as Western Canada development opportunities with early cash flow potential were emphasized over long-cycle exploration. In order to maintain its natural gas production and enhance its oil production in 1993, the Company will focus on the exploitation of its existing asset base through infill and horizontal drilling and enhanced recovery techniques.

Interest expense was down $83 million or 41 per cent from 1991, primarily due to a decrease in debt of $695 million. The lower level of debt reflected the application of proceeds from the sale of the Company's investments in Westcoast, a 5 per cent interest in the Syncrude oil sands project, various non-core oil and gas properties and ISIS. Proceeds from an equity issue in late 1992 and improved cash flow from operations also contributed to debt reduction.

Debt reduction lowered interest expenses

Higher earnings resulted in an income tax expense of $48 million in 1992, compared to a recovery of income taxes of $371 million in 1991.

1991 compared to 1990 The Company's consolidated revenue in 1991 was $4 961 million, a decrease of 16 per cent from 1990. The decrease in revenue was due, in part, to the replacement of the Federal Sales Tax (FST) with the federal Goods and Services Tax (GST). GST is excluded from the Company's revenue and expenses, while FST was included in both in 1990.

Before unusual items, there was a consolidated loss after tax of $143 million in 1991, a reversal from net earnings of $176 million in 1990. The consolidated net loss, after unusual items, was $598 million. The unusual items, after tax, consisted of a provision of $379 million related to the restructuring and reorganization program in the Products division, a $95 million writedown of the Company's investment in the Syncrude oil sands project and a $19 million gain on retirement of long-term debt. Reduced refined product margins, due to the high cost of crude oil in inventory at the end of 1990, and intensely competitive product pricing, coupled with lower prices for conventional crude oil and natural gas, were the principal factors contributing to the loss before unusual items in 1991. Gains from asset disposals after tax amounted to $8 million in 1991, compared to $29 million in 1990.

Operating and overhead expenses increased by less than 1 per cent to $1 854 million, thereby preserving the savings achieved in 1990 while absorbing most of the inflationary cost increases.

Depreciation, depletion and amortization charges increased by 9 per cent to $407 million in 1991, mainly due to higher depletion charges in the Resources division. Exploration expenses remained virtually unchanged from 1990 levels at $113 million.

Interest expense decreased $75 million in 1991 over 1990 due to a net decrease in total debt of $593 million, resulting primarily from the application of proceeds from the Company's Initial Public Offering of common shares, and lower interest rates.

As a result of the loss in 1991, there was a recovery of income tax of $371 million, compared to an income tax provision of $163 million in 1990.

Resources Division

Resources division results

(millions of dollars)	1992	1991	1990
Revenue including inter-segment sales	1 026	1 069	1 314
Earnings from operations	149	31	199
Writedown of investment in Syncrude	—	(95)	—
Net earnings (loss)	149	(64)	199
Cash flow from operations	366	303	480
Return on capital employed *(per cent)*	6.8	(2.7)	8.0
Cash flow return on capital employed *(per cent)*	16.8	12.8	19.3

1992 compared to 1991 Resources division profitability improved sharply in 1992, as reductions in costs more than offset decreases in revenue.

Revenue from the Resources division was $1 026 million in 1992, a decrease of 4 per cent from 1991 primarily due to the sale of a partial interest in Syncrude and various non-core producing properties. Resources division earnings from operations after tax were $149 million in 1992, up from $31 million in 1991. The 1992 results include after-tax gains from asset sales of $24 million and a one-time $21 million income tax adjustment, while there were no net gains or losses on asset sales in 1991.

Significant reductions in operating and overhead costs were partially offset by lower crude oil volumes and weaker natural gas and sulphur prices. Operating and overhead costs were cut by $126 million, or 26 per cent, with about half of the savings coming from gains in efficiency, while the other half was due to lower interests in Syncrude and the disposition of Wolf Lake and other producing properties. The improvements in efficiency were largely the result of employee efforts to cut costs. Other cost savings resulted from the May 1992 decision to refocus and resize the division's operations following a comprehensive review of industry conditions and the division's competitive position in each of its current businesses. The 1992 results also include the $34 million one-time

(millions of dollars)

The Resources division reduced operating and overhead expenses by 26%

reduction in operating costs resulting from the Wolf Lake sale. Overhead cost reductions achieved in the second half of the year amounted to 26 per cent on an annualized basis.

Conventional crude oil production averaged 42 900 barrels a day, a decrease of 5 600 barrels a day from 1991 which was virtually all due to the divestment of non-core properties. Natural gas production was essentially unchanged at 517 million cubic feet a day, despite the sale of non-core producing properties in 1992. Field natural gas liquids production rose by 3 per cent to 12 600 barrels per day. Daily synthetic crude oil and bitumen production fell 7 500 barrels to average 24 300 barrels, reflecting the sale of interests in the Syncrude and Wolf Lake projects. Ethane and other natural gas liquids production from straddle plants increased by 7 per cent to 36 400 barrels per day.

In 1989, Petro-Canada implemented a program aimed at divesting non-strategic and low-potential assets and concentrating its expertise and resources on those assets capable of generating the greatest economic value, particularly in fields where it is the operator or has a significant working interest. Pursuant to this program, the Company targeted a reduction of approximately 370 entities which produced approximately 25 per cent of the division's operating cash flow. After four years the Company has divested properties representing 80 per cent, by value, of the original target and at year-end 1992 had interests in 290 producing entities, 130 of which were classified as core properties. Approximately 50 per cent of the remaining non-core properties are expected to be sold or exchanged for core assets in 1993 with the other 50 per cent phased into an autonomous business unit with the intent to upgrade selected properties and position the unit for sale as a going concern. It is the Company's intention to offset future non-core asset dispositions with acquisitions in core areas and assets that have value-adding opportunities.

The blended oil and liquids price received by Petro-Canada averaged $19.65 per barrel, up 2 per cent from 1991. Natural gas prices for a blend of Alberta and British Columbia production averaged $1.28 per thousand cubic feet, down 8 per cent from the previous year.

Lower operating expenses improved Resources division netbacks, despite weaker prices per barrel of oil equivalent [1]

(dollars)	1992	1991	1990
Conventional crude oil, natural gas and field natural gas liquids price	17.51	18.04	21.87
Royalties	3.30	3.37	4.25
Operating expense [2]	4.76	5.37	4.89
Other taxes	0.33	0.32	0.23
Netback	9.12	8.98	12.50
General & administrative costs (G&A)	1.40	1.57	1.55
Netback after G&A	7.72	7.41	10.95

[1] *12 000 cubic feet of gas equals 1 barrel of oil.*
[2] *Includes future site restoration provision.*

Depreciation, depletion and amortization charges were down by 8 per cent to $194 million, largely due to property sales.

Higher earnings caused income taxes for the Resources division to increase to $101 million, up from $28 million in 1991.

1991 compared to 1990 Revenue from the Resources division was $1 069 million in 1991, a decrease of 19 per cent from 1990, while after-tax earnings before unusual items were $31 million, compared to $199 million in 1990. After the Syncrude write-down, the net loss for 1991 was $64 million. In 1991, there were no net gains or losses on asset sales, versus 1990 gains on asset sales of $33 million.

The most significant factors leading to the decrease in net earnings in 1991 were the lower prices received for crude oil and natural gas. While prices for West Texas Intermediate crude oil fell by 12 per cent, the Company's average sales price for crude oil and field natural gas liquids fell by 20 per cent to $19.21 per barrel. This was primarily caused by the widening gap between light and heavy crude oil prices. Natural gas prices received by the Company were down by 9 per cent to $1.39 per thousand cubic feet, reflecting lower industry prices.

Lower crude oil prices and production volumes, together with a stronger Canada/U.S. dollar exchange rate, were mainly responsible for the revenue decrease of $245 million in 1991. Revenue from natural gas sales declined slightly due to lower natural gas prices, partially offset by a 5 per cent increase in natural gas production. Revenue from natural gas liquids marketing, extraction plants and other operations declined, mainly as a result of lower prices and lower volumes, caused by turbine failures at the Empress plant.

Expenses in the Resources division which included the cost of sales associated with natural gas liquids marketing and extraction plant operations fell $31 million in 1991, driven by lower prices on purchases of natural gas liquids and natural gas feedstock. Operating and overhead expenses increased $26 million, primarily because of higher costs associated with maintaining production from mature fields and increased maintenance expenses related to the turbine failures at Empress.

The increase in depreciation, depletion and amortization charges amounted to $25 million in 1991 and was largely due to a change in the basis of measurement of reserves to conform with U.S. Securities and Exchange Commission requirements.

Income taxes for the Resources division were $28 million in 1991, net of a recovery of $43 million related to the Syncrude writedown, compared to $175 million in 1990.

Products Division

Products division results

(millions of dollars)	1992	1991	1990
Revenue including inter-segment sales	4 000	4 193	4 948
Earnings (loss) from operations	30	(109)	125
Restructure and reorganization	—	(379)	—
Net earnings (loss)	30	(488)	125
Cash flow from operations	200	15	258
Return on capital employed *(per cent)*	1.6	(18.9)	4.3
Cash flow return on capital employed *(per cent)*	10.5	0.6	8.8

1992 compared to 1991 Revenue from the Products division in 1992 was $4 000 million, compared to $4 193 million in 1991. The division's after-tax earnings from operations were $30 million compared with a loss from operations of $109 million in 1991. The division's 1991 results included after-tax gains on asset sales of $8 million.

Operating and overhead cost savings of $182 million and higher gross margins were the main reasons for the improvement in Products division results. Sluggish economic conditions, industry overcapacity and intense competition in 1992 limited the Company's ability to improve earnings, despite gains in efficiency.

Gross margins in the Products division rose 12% over 1991, but remained below the historical average

Petro-Canada's refined product sales grew at a faster pace than for the industry. Volumes improved by 4.1 per cent in 1992 to 43 million litres per day, compared with an overall Canadian market improvement of about 1.5 per cent. This gain occurred despite the closure of 17 per cent of the Company's retail marketing outlets.

The volume of crude oil processed by the Company's refineries remained unchanged at about 42 million litres per day. Refinery utilization remained low, but work is advancing on the capacity reduction plans announced in January 1992. Refinery units at Port Moody, British Columbia, will cease operations in April 1993, while fuel product units at Mississauga, Ontario, will be taken out of operation in the second half of 1993. These changes will reduce refining capacity by 12 500 cubic metres per day and enable Petro-Canada's remaining refineries to operate at utilization rates above 90 per cent. Petro-Canada will continue its efforts to sell or joint venture the Montreal refinery.

The Products division reduced operating and overhead expenses by 14%

Depreciation and amortization charges increased by $2 million to $164 million. The provision for

income taxes was $33 million, compared to a recovery of income taxes in 1991 of $344 million, as a result of improved earnings.

1991 compared to 1990 Revenue from the Products division in 1991 was $4 193 million, compared to $4 948 million in 1990. The decline in revenue was primarily caused by the replacement of FST with GST and by lower product prices. Excluding an unusual item, there was an after-tax loss of $109 million in 1991, compared to net earnings of $125 million in 1990. After providing for restructuring and reorganization charges, the division's net loss for 1991 was $488 million.

The principal factor contributing to the loss in 1991 was the Company's inability to recover the high cost of crude oil in inventory at the end of 1990. While the division's revenue fell by almost $400 million to $4.2 billion, after adjustment for the removal of the FST, crude oil and product purchases were virtually unchanged, causing gross margins to fall by 38 per cent to 4.1 cents per litre. Other factors were increased competition due to reduced demand for refined products, which in turn resulted from the recession in the Canadian economy, and competition from imported products.

Operating and overhead expenses fell by $19 million in 1991 to $1 265 million. Depreciation and amortization charges were up $7 million to $162 million. Taxes other than income taxes were down $365 million, primarily as a result of the replacement of FST with GST. The recovery of income taxes in 1991 amounted to $344 million, compared to an income tax provision of $95 million in 1990.

Corporate and Other

1992 compared to 1991 Revenue from Corporate and Other activities, including ICG Propane, fell 14 per cent, primarily due to lower investment income and lower propane prices. Corporate and Other net expenses in 1992, after tax and before unusual items, were $70 million compared to $65 million in 1991. Lower interest expenses were offset by lower investment income and the amortization of foreign exchange losses arising from the revaluation of long-term debt. Net expenses in 1991 were lower due to the reduced deferral of profits on inter-segment sales of crude oil.

The net loss for the segment, after unusual items, was $170 million, compared to a net loss of $46 million in 1991.

ICG Propane had a net loss of $4 million in 1992, compared to net earnings of $3 million in 1991. Cash flow from operations was $25 million in 1992, down $10 million from a year earlier. While efficiency programs led to a 4 per cent reduction in costs, 1992 earnings were depressed by poor margins, especially in auto propane. An additional factor was warmer-than-normal weather in 1992, which was the primary cause of a 2 per cent decline in propane sales volumes to 1 215 million litres.

1991 compared to 1990 Revenue from Corporate and Other activities, including ICG Propane, was $382 million in 1991, down 12 per cent from 1990. This decline was mainly caused by lower investment income and lower unit realizations in ICG Propane.

Corporate and Other results

	ICG Propane			Corporate			Total		
(millions of dollars)	1992	1991	1990	1992	1991	1990	1992	1991	1990
Revenue	304	328	362	25	54	71	329	382	433
Earnings (loss) from operations	(4)	3	5	(66)	(68)	(153)	(70)	(65)	(148)
Unusual items:									
Restructure and reorganization	—	—	—	(39)	—	—	(39)	—	—
(Loss) gain on retirement of long-term debt	—	—	—	(33)	19	—	(33)	19	—
Loss on disposal of investments	—	—	—	(28)	—	—	(28)	—	—
Net earnings (loss)	(4)	3	5	(166)	(49)	(153)	(170)	(46)	(148)
Cash flow from (used in) operations	25	35	30	(74)	(61)	(147)	(49)	(26)	(117)

The net loss for the segment, before the gain on retirement of long-term debt, was $65 million, compared to a net loss of $148 million in 1990. Net earnings from ICG Propane were $3 million in 1991, compared with $5 million a year earlier. Cash flow from operations rose 17 per cent to $35 million, primarily due to higher margins.

The improvement in results of Corporate and Other activities in 1991 over 1990 was mainly due to two factors. Firstly, interest was $75 million lower, and, secondly, there was a reduced deferral of profits on inter-segment sales of crude oil, due to lower crude oil prices in the fourth quarter of 1991 compared to the fourth quarter of 1990.

Liquidity and Capital Resources

Summary of changes in financial position

(millions of dollars)	1992	1991	1990
Operating activities			
Cash flow from operations	517	292	621
Decrease in advances on future natural gas deliveries	(15)	(18)	(20)
Decrease (increase) in operating working capital	54	108	(307)
	556	382	294
Investing activities	134	(300)	(689)
Financing activities and dividends	(596)	(130)	404
Increase (decrease) in cash	94	(48)	9

Operating Activities

In 1992, Petro-Canada funded its cash requirements from internally generated cash flow and proceeds from dispositions. Short-term debt was used to fund working capital requirements and provide temporary financing.

Cash flow from operations in 1992 was $517 million, an increase of 77 per cent from 1991, primarily because of cost reductions. Cash flow from operations was $292 million in 1991, 53 per cent lower than in 1990.

Higher cash flow from operations and a decrease in operating working capital caused cash generated from operating activities in 1992 to increase by $174 million to $556 million. In 1992, operating working capital decreased $54 million, net of reclassifications from deferred credits of current items relating to future removal and site restoration costs and long-term liabilities. An increase in accounts payable and a decrease in inventories on a LIFO basis were the main reasons for the decline. Deferred credits also declined because the 1991 deferred gain on translation of long-term debt of $31 million changed to a deferred charge of $93 million, as a result of the weaker Canadian dollar.

In 1991, operating working capital decreased $108 million to $473 million, net of accruals of $58 million relating to unusual items. Significant decreases in accounts receivable and inventories, due to the drop in the price of crude oil in 1991, were partially offset by decreases in accounts payable and income taxes payable. Cash generated from operating activities totalled $382 million in 1991, an increase of $88 million from the prior year because of operating working capital changes between the two years.

Investing Activities

Capital and exploration expenditures

(millions of dollars)	1992	1991	1990
Resources			
Exploration [1]	59	138	149
Development	47	83	97
Hibernia project	93	62	12
Oil sands and other	37	35	40
Property acquisitions	95	23	95
	331	341	393
Products			
Refining	59	81	89
Marketing and other	50	110	73
MTBE plant	—	96	59
	109	287	221
Corporate and Other			
ICG Propane	14	17	16
Corporate	2	7	13
	16	24	29
Total property, plant and equipment and exploration expenditures	456	652	643
Investments	2	(49)	50
Deferred charges and other assets	12	29	17
Acquisitions		—	235
Total	470	632	945

[1] *Includes exploration expenses of $56 million in 1992, $113 million in 1991 and $111 million in 1990.*

Consistent with Petro-Canada's strategy to fund investments from cash flow, expenditures on property, plant and equipment and exploration were reduced by 30 per

(millions of dollars)

■ *Capital and exploration expenditures*
■ *Cash flow*

Capital and exploration expenditures are now closely aligned to cash flow from operations

cent in 1992 to $456 million. The reduction was centred primarily on expenditures for exploration and for refining and marketing. The Resources division accounted for 73 per cent of the outlay in 1992, compared to 52 per cent in 1991 and 61 per cent in 1990. Expenditures in 1990 included $235 million for the acquisition of ICG Propane Inc.

Capital expenditures in the Resources division during the past three years have focused on exploration and development in Western Canada, international exploration and the Hibernia offshore project. International exploration expenditures were significantly reduced in 1992 in accordance with the strategic decision to lessen international activity. Future investment in Resources will be targeted to the four businesses with the greatest potential to consistently deliver strong performance: Western Canada light oil, natural gas, natural gas liquids and Grand Banks light oil.

Products division expenditures on refinery property, plant and equipment have concentrated in recent years on reliability, environmental and safety programs, as well as refinery enhancement and upgrades necessary to meet octane requirements, including the phase-out of leaded gasolines. Over the next three years, the Company plans a modest level of capital expenditures to meet voluntary Government guidelines in the production of low-sulphur diesel for road transportation. Marketing-related expenditures reflect primarily the ongoing upgrading of wholesale and retail sites and replacement of underground tanks. During 1990 and 1991, expenditures also related to the Company's share of costs incurred by Alberta Envirofuels Inc. in the construction of a $390 million MTBE (methyl tertiary butyl ether) plant. The Company sold its interest in this plant in 1991.

Proceeds from sale of property, plant and equipment

(millions of dollars)	1992	1991	1990
Resources	236	115	211
Products	12	194	36
Corporate and Other	8	2	9
Total	256	311	256

The Company's ongoing asset rationalization and rebalancing program generated proceeds of $256 million in 1992. Proceeds from the sale of oil and gas properties amounted to 92 per cent of total realizations and included the disposition of a 5 per cent interest in the Syncrude project.

In 1992, proceeds from the sale of assets exceeded capital and exploration expenditures by $134 million. In addition to the sales of property, plant and equipment, Petro-Canada sold its investments in Westcoast and ISIS for $348 million.

Financing Activities and Dividends

Consolidated capitalization

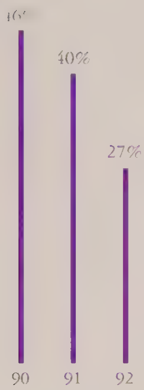
(millions of dollars)	1992	1991	1990
Short-term debt	86	118	705
Long-term debt	868	1 531	1 537
Deferred credits and deferred income taxes	731	1 023	1 308
Shareholders' equity	2 643	2 493	2 582
Total	4 328	5 165	6 132

Debt net of $89 million of cash designated for debt retirement at December 31, 1992, was $954 million, down 58 per cent from $2 245 million immediately prior to privatization in July 1991. The Company's combined short-term and long-term debt was $1 649 million at December 31, 1991, and $2 242 million at the end of 1990.

(millions of dollars)

Debt was significantly reduced – financial strength is now competitive with industry peers

During 1992, Petro-Canada repaid U.S. $600 million principal amount of long-term debentures. The funds for the repayment were derived largely from the sale of the Company's interest in Westcoast, a 5 per cent interest in the Syncrude project, and ISIS, and a new $100 million issue of 9.375% notes due June 24, 1997. In order to receive immediate benefit from the Westcoast sale, which was transacted on an instalment basis, the account receiv-



Debt to debt plus equity, a key financial ratio, improved dramatically

able for the final instalment was sold to a major Canadian financial institution.

In 1992, the Company issued 818 277 incentive shares under its employee share purchase plan and another 30 350 000 common shares to the public. The net proceeds of the public issue after-taxes were $244 million. These proceeds were used to repay U.S. $115 million of the Company's U.S. $125 million LIBOR less 0.8% unsecured notes, to eliminate short-term debt other than Government-guaranteed debt related to Hibernia, and for working capital purposes.

Dividends paid on common shares were $28 million in 1992 and $45 million in 1991. The 1991 dividends included $31 million paid to Petro-Canada's then parent corporation prior to the initial public offering of Petro-Canada common shares in July 1991. Subsequent to the initial public offering, Petro-Canada has paid quarterly dividends of 3.25 cents per share.

At December 31, 1992, Petro-Canada's debt to debt plus equity ratio was approximately 27 per cent, down from 40 per cent at the end of 1991. At year-end 1992, the Company's financial ratios were competitive with its industry peers.

Working capital and bridge financing requirements will continue to be met through the issuance of short-term debt. Petro-Canada plans to fund its short-term requirements through a commercial paper program which, as at December 31, 1992, was unutilized. This program is supported by committed standby credit facilities totalling a maximum of $575 million and demand credit facilities of $300 million from Canadian financial institutions.

Financial ratios

(times)	1992	1991	1990
Current ratio	1.0	1.3	1.0
Interest coverage			
– earnings basis	1.4	(3.6)	2.2
– cash flow basis	5.5	2.3	3.7
Debt to cash flow	1.8	5.6	3.6

The fiscal regime for the Hibernia project gives Petro-Canada access to a total of $415 million in limited-recourse Government-guaranteed loans. Entitlement to these guarantees is earned as capital expenditures are made. As at December 31, 1992, Petro-Canada had accessed $86 million. Based on a 25 per cent working interest, Petro-Canada expects to earn and access an additional $100 million by the end of 1993. The total available guarantee will be earned by production start-up in 1997. Debt supported by the Government guarantee is carried on Petro-Canada's balance sheet and it is anticipated that revenue from Petro-Canada's share of the Hibernia project will service and repay this debt.

Petro-Canada intends to fund capital and exploration expenditures over time with cash flow from operations. Financing flexibility may be provided by reductions in discretionary capital expenditures, short-term debt or additional asset sales if cash flow from operations is lower than expected.

Other Financing Obligations Other financing obligations at December 31, 1992, recorded off-balance sheet, consisted of guarantees or support for guarantees with respect to $290 million of debt related to Petro-Canada Centre, a 50-50 joint venture between Petro-Canada and another company, and the Company's agreement to sell, with limited recourse, accounts receivable on a revolving basis.

In 1993, $100 million of the Petro-Canada Centre debt related to building financing becomes due for repayment. The joint venture plans to use its existing bank credit facilities, which are specific to Petro-Canada Centre, to meet this repayment obligation.

As at December 31, 1992, accounts receivable of $201 million were sold pursuant to the revolving sales agreement, resulting in cash proceeds of $190 million. As at December 31, 1991, and December 31, 1990, accounts receivable of $212 million were sold for proceeds of $200 million.

Exposure Management Strategies

In order to ensure reliable cash flows, Petro-Canada actively manages its exposure to interest rates, foreign exchange rates, commodity prices and physical risk. The management strategy is conservative and consists of hedging only those exposures that arise from the underlying operations. The Company has established an Exposure Management Committee which has defined the parameters of the hedging programs and is responsible for implementation and ongoing strategy.

Petro-Canada determines the nature of its borrowings based primarily on the cost of debt. Funding sources are diversified and the term of liabilities is matched to the Company's asset base. Petro-Canada mitigates its exposure to floating interest rates by balancing the floating/fixed rate mix of its debt and using interest rate swaps, options and floating rate agreements.

Because crude oil is denominated in U.S. dollars, Petro-Canada is exposed to fluctuations in the Canada/U.S. dollar exchange rate in both the upstream and downstream segments of its business. The Company identifies and continuously monitors the direction, timing and magnitude of these exposures and manages them using foreign currency options, swaps and forward sales contracts. Petro-Canada has entered into agreements which will substantially eliminate its 1993 exposure to adverse currency movements while retaining partial participation in favourable movements. Unrealized gains or losses from the hedging program will vary from time to time with changes in the Canada/U.S. dollar exchange rate.

Petro-Canada hedges against adverse movements in the price of crude oil through an exposure management program in the commodity markets using futures and options. Under this program, the Company has sold forward 50 per cent of its estimated 1993 net crude oil production at an average price of U.S. $21 per barrel.

Insurance coverage is purchased in the world market for the full spectrum of the Company's insurable risks. Insurance limits, consistent with industry practice, are based on the largest probable loss estimates. Retentions, in the form of deductibles and self-insurance, are set at conservative levels.

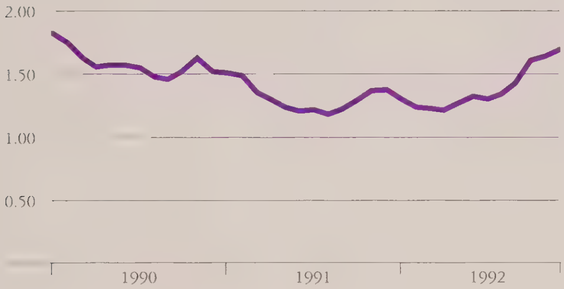
Outlook

The benchmark crude oil, West Texas Intermediate, is anticipated to continue trading within a range of U.S. $18 to $22 per barrel in 1993. Oil demand growth is expected to remain constrained this year by weak economic growth in the Organization of Economic Co-operation and Development (OECD) countries and economic adjustments taking place in the former Soviet bloc. On the supply side, the price outlook will remain blurred by the United Nations embargo on Iraqi exports and continuing tensions within the Organization of Petroleum Exporting Countries (OPEC). Intense price volatility could dominate the period during which the embargo remains in place.

The recent announcement by U.S. President Clinton of the intention of his Administration to introduce a tax on the consumption of major fuels based on their energy content, could, if legislated, have significant implications for the outlook of international and North American energy prices and consumption. The tax, which would be phased in over three years starting July 1, 1994, would be paid by initial purchasers of energy, such as refineries, natural gas shippers and distributors and electric power utilities. It would be collected at the point of entry in the case of U.S. energy imports. Preliminary assessments of the impact of the tax on fossil fuels suggest that natural gas use would be favoured relative to oil and coal use.

In the view of some analysts, the recent recovery in United States natural gas prices could signal the beginning of a turnaround in North American gas prices.

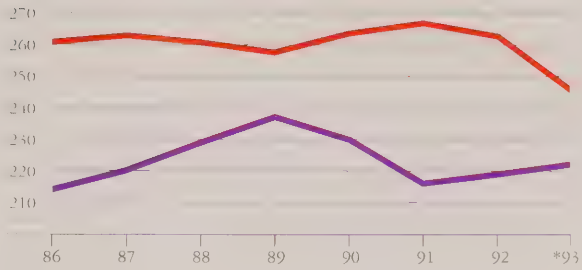
Continuing surplus gas deliverability in Western Canada, short-term pipeline capacity constraints and predetermined contractual arrangements have prevented Canadian prices from improving to the same extent as in the United States. The key factors influencing the sustainability of natural gas price increases in both Canada and the United States are the return to normal winter weather and the status of surplus gas deliverability. Until last year, the North American gas industry experienced the demand-depressing effect of seven consecutive years with warmer-than-normal winters. In addition, the life of surplus gas deliverability in North America was extended by the impact in the United States of a tax credit on coal bed methane and tight sands gas production.



(Alberta average plant gate prices in dollars per thousand cubic feet)

Rising exports and lower deliverability surplus in the United States improved the natural gas price outlook

Despite anticipated continuing increases in deliverability from non-conventional sources, the expectation is that the natural gas deliverability surplus in the United States has been eliminated or is very close to vanishing. As a result, the United States market is becoming increasingly vulnerable to a cold winter. However, the fact that Canada's natural gas reserves-to-production ratio is still significantly higher than in the United States suggests that the balancing of supply and demand in Canada will lag that achieved in the United States.



(thousands of cubic metres per day)

Refining capacity
Product demand
**Outlook*

Announced industry closures should reduce excess Canadian refining capacity and improve profitability

Petro-Canada expects its own conventional oil production to increase in 1993, primarily due to development and productivity programs in its core properties, while natural gas production should match 1992 levels.

Expectations of an improvement in economic conditions, which will be moderate by the standard of past economic recoveries, lead Petro-Canada to anticipate modest growth, slightly in excess of 1 per cent, in domestic sales of refined products during 1993. Demand for refined products is expected to remain significantly below its previous 1989 peak. The implementation of announced changes in refining and marketing capacity, particularly by Petro-Canada, should result in an overall increase in the industry's capacity utilization rates by year-end 1993. The Company expects capacity rationalization will improve its efficiency and have a positive impact on Products division gross margins starting in late 1993.

Subject to business conditions, Petro-Canada's expenditures on property, plant and equipment and exploration will be approximately $540 million in 1993, an increase of 18 per cent from 1992. The Company plans to invest 33 per cent of the 1993 capital budget to maintain or improve refining and marketing reliability and profitability, 32 per cent in the Hibernia offshore development project (net of grants) and 30 per cent to maintain or enhance oil and gas production. In addition, the Company will continue its program of divesting non-core Western Canada oil and gas properties while making strategic property acquisitions. In 1993, property purchases, which will be offset by divestitures, could exceed $100 million.

Terms

Capital employed
Total assets less cash and short-term deposits designated for debt retirement and current liabilities excluding short-term notes payable and the current portion of long-term debt.[1]

Cash flow
Cash flow from operations.[2]

Debt
Short-term notes payable and long-term debt including current portion[1] less cash and short-term deposits designated for debt retirement.

Operating expenses
Producing, refining and marketing expenses.

Overhead expenses
General and administrative expenses.

Producing costs per barrel of oil equivalent
Field operating costs, applicable overhead expenses and taxes (other than income taxes) relating to the production of conventional and synthetic crude oil, natural gas and natural gas liquids divided by the related production volumes. Natural gas production (excluding injectants) is converted using 12 000 cubic feet of gas for 1 barrel of oil.

Conventional producing costs per barrel of oil equivalent are calculated after excluding costs and volumes related to synthetic crude oil.

Ratios

Cash flow return on capital employed
Cash flow[3] plus after-tax interest expense divided by average capital employed. Measures cash flow generated relative to the asset base.

Current ratio
Current assets divided by current liabilities. Reflects the Company's short-term liquidity and its ability to pay short-term trade debts.

Debt to cash flow
Debt divided by cash flow. Indicates the Company's ability to discharge its outstanding debt.

Debt to debt plus equity
Debt divided by debt plus equity.[4] Shows the relative amount of debt in the Company's capital structure. Measures financial strength.

Interest coverage
Earnings basis: Earnings[3] before interest expense and provision for income taxes divided by interest expense plus capitalized interest.[5]
Cash flow basis: Cash flow[3] before interest expense and current income taxes divided by interest expense plus capitalized interest.[5]

Both are indicators of the Company's ability to service its debt.

Reinvestment ratio
Net expenditures on investing activities divided by cash flow. Indicates the rate at which cash flow is reinvested.

Return on capital employed
Net earnings[4] plus after-tax interest expense divided by average capital employed. Measures earnings generated relative to the asset base.

Return on equity
Net earnings divided by weighted average shareholders' equity.[4] Measures the return earned by shareholders on their investment in the Company.

[1] *Prior to 1988 – add redeemable preferred shares valued at year-end Cdn./U.S.dollar exchange rates.*

[2] *Prior to 1989 – deduct dividends on redeemable preferred shares.*

[3] *Prior to 1989 – add back dividends on redeemable preferred shares.*

[4] *Prior to 1988 – reduce shareholders' equity by the valuation adjustment on redeemable preferred shares at year-end Cdn./U.S. dollar exchange rates.*

[5] *Prior to 1989 – add back dividends on redeemable preferred shares grossed up by 1/(1- tax rate).*

Management's Responsibility for the Financial Statements

The preparation and presentation of the Company's consolidated financial statements is the responsibility of management. The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include some estimates which are based on management's best judgements. Information contained elsewhere in the Annual Report is consistent, where applicable, with that contained in the financial statements.

Management is also responsible for installing and maintaining a system of internal control to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced for preparation of financial statements. The Company's Internal Audit department reviews the system of internal control to ensure that it is adequate and functioning properly.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises these responsibilities with the assistance of the Audit Committee of the Board.

The external auditors conduct an independent examination and express their opinion on the consolidated financial statements. The Auditors' Report outlines the external auditors' opinion and the scope of their examination.

President and
Chief Executive Officer

Senior Vice-President
and Chief Financial Officer
February 17, 1993

Audit Committee of the Board of Directors

The Board of Directors exercises its responsibility for ensuring that management fulfills its financial reporting and internal control function with the assistance of the Audit Committee of the Board.

The Committee, which is composed of not less than three (currently five) directors who are not employees of the Company, reviews the annual consolidated financial statements and recommends their approval to the Board. The Committee also reviews financial information contained in prospectuses and in reports filed with regulatory authorities, as required, as well as quarterly financial information.

With respect to the external auditors, the Committee reviews the terms of engagement, the annual audit plan, the Auditors' Report, the results of the external audit and any significant recommendations to strengthen internal controls. The Committee also recommends to the Board a firm of external auditors to be appointed by the shareholders.

The Committee receives periodic reports on the activities of the Internal Audit Department, reviews its significant findings and recommendations and approves the annual internal audit plan.

Senior management, the internal auditor and the external auditors attend all Audit Committee meetings and each is provided with the opportunity to meet privately with the Committee.

Chairman of the Audit Committee
February 17, 1993

Auditors' Report

To the Shareholders of Petro-Canada:

We have audited the consolidated balance sheet of Petro-Canada as at December 31, 1992 and 1991 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1992. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1992 and 1991 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1992 in accordance with generally accepted accounting principles.

Arthur Andersen & Co.

Chartered Accountants
Calgary, Alberta
February 17, 1993

CONSOLIDATED STATEMENT OF EARNINGS

For the years ended December 31,
(stated in millions of dollars)

	1992	1991	1990
Revenue			
Operating (Note 4)	$ 4 551	$ 4 806	$ 5 680
Investment and other income	167	155	193
	4 718	4 961	5 873
Expenses			
Crude oil and product purchases	2 358	2 516	2 501
Producing, refining and marketing	1 307	1 554	1 518
General and administrative	241	300	324
Exploration	56	113	111
Depreciation, depletion and amortization	391	407	373
Taxes other than income taxes (Note 4)	67	67	429
Interest on long-term debt	117	134	137
Other interest	3	69	141
	4 540	5 160	5 534
Unusual Items (Note 5)	(121)	(770)	—
Earnings (Loss) before Income Taxes	57	(969)	339
Provision for (Recovery of) Income Taxes (Note 6)			
Current	70	(9)	130
Deferred	(22)	(362)	33
	48	(371)	163
Net Earnings (Loss) (Note 7)	$ 9	$ (598)	$ 176

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the years ended December 31,
(stated in millions of dollars)

	1992	1991	1990
Retained Earnings (Deficit) at Beginning of Year, as previously reported	$ (634)	$ 9	$ (257)
Adjustment for the cumulative effect of change in accounting policy on prior periods (Note 2)	(75)	—	—
Retained Earnings (Deficit) at Beginning of Year, as restated	(709)	9	(257)
Net earnings (loss)	9	(598)	176
Dividends on common shares	(28)	(45)	(45)
Transfer from contributed surplus (Note 18)	—	—	135
Retained Earnings (Deficit) at End of Year	$ (728)	$ (634)	$ 9

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the years ended December 31,
(stated in millions of dollars)

	1992	1991	1990
Operating Activities			
Net earnings (loss)	$ 9	$ (598)	$ 176
Items not affecting cash flow from operations (Note 8)	452	777	334
Exploration expenses	56	113	111
Cash flow from operations	517	292	621
Decrease in advances on future natural gas deliveries	(15)	(18)	(20)
Decrease (increase) in operating working capital (Note 9)	54	108	(307)
	556	382	294
Investing Activities			
Expenditures on property, plant and equipment and exploration	(456)	(652)	(643)
Proceeds from sale of property, plant and equipment	256	311	256
Proceeds from sale of investments	348	21	—
Other (increase) decrease in investments, net	(2)	49	(50)
Increase in deferred charges and other assets, net	(12)	(29)	(17)
Acquisition of ICG Propane Inc. (Note 3)	—	—	(235)
	134	(300)	(689)
Financing Activities and Dividends			
Proceeds from issue of common shares	244	554	158
Proceeds from issue of long-term debt	100	674	347
Decrease in short-term notes payable, net	(32)	(587)	(5)
Dividends on common shares	(28)	(45)	(45)
Reduction of long-term debt	(880)	(726)	(51)
	(596)	(130)	404
Increase (Decrease) in Cash and Short-Term Deposits	94	(48)	9
Cash and Short-Term Deposits (Deficiency) at Beginning of Year	(12)	36	27
Cash and Short-Term Deposits (Deficiency) at End of Year	$ 82	$ (12)	$ 36

CONSOLIDATED BALANCE SHEET

As at December 31,
(stated in millions of dollars)

	1992	1991
Assets		
Current Assets		
Cash and short-term deposits (Note 16)	$ 82	$ —
Accounts receivable (Note 10)	580	611
Income taxes recoverable	8	29
Inventories (Notes 2 and 11)	460	657
Prepaid expenses	26	33
	1 156	1 330
Investments (Note 12)	80	453
Property, Plant and Equipment, net (Note 13)	3 865	4 084
Deferred Charges and Other Assets (Note 14)	249	167
	$ 5 350	$ 6 034
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term notes payable (Note 15)	$ 86	$ 118
Accounts payable and accrued liabilities	933	857
Current portion of long-term debt (Note 16)	89	—
Outstanding cheques less cash and short-term deposits	—	12
	1 108	987
Long-Term Debt (Note 16)	868	1 531
Deferred Credits (Note 17)	264	459
Deferred Income Taxes	467	564
Commitments and Contingent Liabilities (Note 22)		
Shareholders' Equity (Note 18)	2 643	2 493
	$ 5 350	$ 6 034

Approved on behalf of the Board

Director

Director

1. Summary of Significant Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements include the accounts of Petro-Canada and of all subsidiary companies ("the Company") and comply in all material respects with Canadian generally accepted accounting principles.

The excess of the consideration paid for the shares of subsidiaries over the underlying net book values at the dates of acquisition is attributed to the related assets acquired and is amortized over the life of these assets.

(b) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of crude oil and products is determined primarily on a "last-in, first-out" basis.

(c) Investments

Investments in companies over which the Company has significant influence are accounted for on the equity method. Other long-term investments are accounted for on the cost method.

(d) Property, Plant and Equipment

Investments in exploration and development activities are accounted for on the successful efforts method. Under this method the acquisition cost of unproved acreage is capitalized. Costs of exploratory wells are initially capitalized pending determination of proved reserves and costs of wells which are assigned proved reserves remain capitalized while costs of unsuccessful wells are charged to earnings. All other exploration costs are charged to earnings as incurred. Development costs, including the cost of all wells, are capitalized.

Substantially all of the Company's exploration and development activities are conducted jointly with others. Only the Company's proportionate interest in such activities is reflected in the financial statements.

The interest cost of debt attributable to the construction of major new facilities is capitalized during the construction period.

(e) Depreciation, Depletion and Amortization

The carrying amounts of unproved properties are evaluated periodically for impairment with any such impairment being charged to earnings.

Depreciation and depletion of capitalized costs of oil and gas producing properties is calculated using the unit of production method.

Depreciation of other plant and equipment is provided on either the unit of production method or the straight line method as appropriate. Straight line depreciation rates are based on the estimated service lives of the related assets.

(f) Future Removal and Site Restoration Costs

Estimated future removal and site restoration costs are provided for using either the unit of production method or the straight line method, as appropriate, over estimated service lives.

(g) Income Taxes

Full provision is made for income taxes deferred as the result of claiming depreciation, exploration, development and other costs for income tax purposes which differ from the related amounts charged to earnings.

(stated in millions of dollars)

1. Summary of Significant Accounting Policies (continued)

(h) Translation of Foreign Currency

Monetary assets and liabilities are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Other assets and related depreciation, depletion and amortization, other liabilities, revenue and other expense items are translated at rates of exchange in effect at the respective transaction dates. The resulting exchange gains or losses are included in earnings, except for unrealized exchange gains or losses arising on translation of long-term debt, which are deferred and amortized over the remaining term of the debt.

Foreign operations are integrated with the Company's other activities and are translated in the manner described above.

(i) Postretirement Benefits

In addition to its pension plans the Company provides for other postretirement benefits, including health, dental and life insurance, to its qualifying retirees. The cost of these benefits is charged to earnings when paid by the Company.

(j) Hedging Activity

The Company enters into futures and option contracts to reduce its exposure to foreign exchange and commodity price fluctuations. Gains and losses on these contracts which constitute effective hedges are deferred and recognized as a component of the related transaction.

2. Change in Accounting Policy

Effective January 1, 1992 the Company changed from the first-in, first-out ("FIFO") method to the last-in, first-out ("LIFO") method of determining cost of crude oil and product inventories. The change was made to more closely match current costs with current revenues in the determination of the results of the Company's operations.

This change in accounting policy has been adopted retroactively but individual prior periods have not been restated because the effects of the change on such periods are not reasonably determinable. Accordingly, the deficit has been increased by $75 million to reflect the cumulative effect of the change on prior periods, and inventories and deferred income taxes have been reduced by $130 million and $55 million, respectively, as at January 1, 1992. For the year ended December 31, 1992, the change increased net earnings by $13 million and cash flow from operations by $23 million.

3. Acquisition of ICG Propane Inc.

In 1990 the Company completed its acquisition of ICG Propane Inc., the propane division of Inter-City Gas Corporation. This acquisition was effective January 1, 1990 and has been accounted for by the purchase method as follows:

Book value of assets acquired		$ 164
Book value of assumed liabilities		(78)
		86
Excess of attributed value over book value of acquired net assets:		
Property, plant and equipment	$ 71	
Goodwill	78	149
Total cost of acquisition		$ 235

Funds for the acquisition were provided from cash flow from operations and short-term borrowings.

(stated in millions of dollars)

4. Taxes and Crown Royalties

	1992	1991	1990
Items included in the statement of earnings:			
Federal sales taxes	$ —	$ —	$ 363[1]
Other taxes	67	67	66
	67	67	429
Provision for (recovery of) income taxes	48	(371)	163
	$ 115	$ (304)	$ 592

[1] *This amount was included in both revenue and expenses in the statement of earnings.*

Items not included in the statement of earnings:			
Provincial fuel and sales taxes	$ 1 164	$ 1 036	$ 944
Federal excise taxes	737	730	731
Goods and Services Tax collected	540	551	—
Crown royalties, paid and paid in kind	101	106	136
	$ 2 542	$ 2 423	$ 1 811

5. Unusual Items

	1992	1991	1990
Restructure and reorganization	$ (60)	$ (655)	$ —
(Loss) gain on retirement of long-term debt	(53)	23	—
Loss on disposal of investments	(8)	—	—
Writedown of investment in Syncrude	—	(138)	—
	$ (121)	$ (770)	$ —

Restructure and reorganization

During 1992 the Company implemented an internal reorganization and staff reduction program. The cost of this program, in the amount of $60 million, has been charged to 1992 earnings. A similar program was implemented in 1991, resulting in a charge to 1991 earnings of $18 million.

The Company has announced its intention to sell or joint venture its Montreal Refinery and to close refinery facilities located at Mississauga, Ontario, and Port Moody, British Columbia, and certain marketing facilities throughout Canada. Based on the Company's perception of market conditions as well as discussions with prospective purchasers, the carrying amount of the facilities to be sold was written down to the estimated net realizable value of these assets. The carrying amount of the facilities to be closed was written down and $201 million was provided for expenses to be incurred in connection with the closures. The asset writedown and the provision for the estimated closure expenses, which in aggregate amount to $637 million, were charged to earnings in 1991.

(Loss) gain on retirement of long-term debt

The Company prepaid U.S. $600 million of debt in 1992 and U.S. $600 million in 1991, thereby completing the repayment of agency debt required under the terms of an agreement to restructure the Company's long-term indebtedness to Petro-Canada Limited, a wholly-owned Crown corporation which is Petro-Canada's former parent company (Note 16). The prepayments resulted in a $53 million loss in 1992 and a $23 million gain in 1991.

(stated in millions of dollars)

5. Unusual Items (continued)

Loss on disposal of investments

During 1992 the Company disposed of its 37% investment in Westcoast Energy Inc. ("Westcoast") and its 27% interest in Internationale de Services Industriels et Scientifiques ("ISIS"). The disposal of the investment in Westcoast together with the sale of a related installment receivable resulted in a loss of $50 million. The disposal of the investment in ISIS resulted in a gain of $42 million.

Writedown of investment in Syncrude

During 1991 the Company announced its intention to sell a portion of its working interest in the Syncrude Project and wrote down the carrying amount of its investment by $138 million to reflect estimated net realizable value. During 1992 the Company sold a 5% interest in the Project.

6. Income Taxes

The computation of the provision for (recovery of) income taxes, which requires adjustment to earnings (loss) before income taxes for non-taxable and non-allowable items, is as follows:

	1992	1991	1990
Earnings (loss) before income taxes	$ 57	$ (969)	$ 339
Add (deduct)			
Royalties and other payments to provincial governments, net	106	111	139
Resource allowance	(89)	(56)	(132)
Non-deductible depreciation, depletion and amortization	83	88	73
Non-deductible interest	(15)	2	17
Non-taxable losses (gains)	53	(3)	(6)
Equity in earnings of affiliates	(26)	(36)	(37)
Other	(29)	(28)	(19)
Earnings (loss) as adjusted before income taxes	$ 140	$ (891)	$ 374
Canadian Federal income tax rate	38.0%	38.0%	38.0%
Canadian Federal income tax on earnings (loss) as adjusted	$ 53	$ (339)	$ 142
Large Corporations Tax	9	11	10
Provincial and other income taxes, net of federal abatement	7	(38)	17
Reassessments, rebates and other	(21)	(5)	(6)
Provision for (recovery of) income taxes	$ 48	$ (371)	$ 163

The provision for (recovery of) income taxes of $48 million (1991 – $(371) million; 1990 – $163 million) represents an effective rate of 84.2% (1991 – 38.3%; 1990 – 48.1%) on earnings (loss) before income taxes.

7. Net Earnings (Loss) per Common Share

The basic net earnings (loss) per common share for the year ended December 31, 1992 was $0.04 (1991 – ($3.08)). The weighted average number of shares outstanding in 1992 was 217 111 528 (1991 – 194 119 020). Earnings per share have not been provided for 1990 as Petro-Canada was a wholly-owned subsidiary of a Crown corporation.

(stated in millions of dollars)

8. Items not Affecting Cash Flow from Operations

	1992	1991	1990
Depreciation, depletion and amortization	$ 391	$ 407	$ 373
Unusual items, net (Note 5)	128	774	—
Deferred income taxes	(22)	(362)	33
Gain on sale of assets	(54)	(33)	(69)
Equity earnings, net of dividends received	(2)	(5)	(9)
Other	11	(4)	6
	$ 452	$ 777	$ 334

9. Decrease (Increase) in Operating Working Capital

	1992	1991	1990
Accounts receivable	$ 31	$ 162	$ 35
Income taxes recoverable	21	(29)	—
Inventories (Note 2)	67	307	(287)
Prepaid expenses	7	15	(3)
Accounts payable and accrued liabilities	76	(155)	168
Income taxes payable	—	(134)	(63)
Current accruals relating to unusual items (Note 5) and other	(148)	(58)	(9)
Advances	—	—	(148)
	$ 54	$ 108	$ (307)

Operating working capital is comprised of working capital other than cash and short-term deposits, outstanding cheques less cash and short-term deposits, short-term notes payable and current portion of long-term debt.

10. Accounts Receivable

In 1990 the Company entered into an agreement to sell, with limited recourse, accounts receivable on a revolving basis. As at December 31, 1992, accounts receivable of $201 million (1991 – $212 million) have been sold pursuant to this agreement.

11. Inventories

	1992	1991
Crude oil, refined products and merchandise	$ 406	$ 595
Materials and supplies	54	62
	$ 460	$ 657

(stated in millions of dollars)

12. Investments

	1992	1991
At equity		
Petro-Canada Centre	$ 30	$ 31
Westcoast Energy Inc.	—	364
Other	22	20
At cost		
Loans and other investments	28	38
	$ 80	$ 453

Petro-Canada Centre

The Company owns 50% of Petro-Canada Centre, an office complex in Calgary. The Company has entered into a long-term lease for use of a portion of the complex and, as at December 31, 1992, has guaranteed or provided support for a guarantee of $ 290 million of debt related to the facility.

Westcoast Energy Inc.

During 1992 the Company disposed of its 37% investment in Westcoast Energy Inc. (Note 5).

13. Property, Plant and Equipment

	1992			1991			1992	1991
	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Capital Expenditures	
Natural Resources								
Oil and gas								
Canada non-frontier	$ 3 064	$ 1 720	$ 1 344	$ 3 417	$ 1 987	$ 1 430	$ 149	$ 127
Hibernia Project	214	—	214	121	—	121	93	62
Other frontier	62	—	62	61	—	61	—	—
Foreign	16	8	8	21	6	15	(4)	3
Oil sands								
Syncrude Project	521	172	349	812	330	482	9	25
Other	219	219	—	218	218	—	2	1
Natural gas liquids	262	136	126	237	125	112	26	9
Other	77	62	15	78	57	21	—	1
	4 435	2 317	2 118	4 965	2 723	2 242	275	228
Refined Products								
Refining	1 943	1 166	777	1 886	1 079	807	59	81
Marketing and other	1 108	342	766	1 093	299	794	50	206
	3 051	1 508	1 543	2 979	1 378	1 601	109	287
Other property, plant and equipment	527	323	204	525	284	241	16	24
	$ 8 013	$ 4 148	$ 3 865	$ 8 469	$ 4 385	$ 4 084	$ 400	$ 539

Interest capitalized during 1992 amounted to $8 million (1991 – $10 million; 1990 – $2 million).

(stated in millions of dollars)

14. Deferred Charges and Other Assets

	1992	1991
Translation adjustment on long-term debt	$ 93	$ —
Goodwill	56	64
Deferred pension funding	49	40
Deferred financing costs	7	19
Other	44	44
	$ 249	$ 167

15. Short-Term Notes Payable

As at December 31, 1992 short-term notes payable of $86 million (1991 – $nil) relate to the Hibernia Project (Note 22(b)). These notes are guaranteed by the Government of Canada and recourse is limited to the Hibernia Project and related net revenues.

16. Long-Term Debt

	Maturity	1992	1991
LIBOR less 0.8% unsecured notes (U.S. $70 million; 1991 – U.S. $125 million)[1]	1995	$ 89	$ 144
9.375% unsecured notes[2]	1997	106	—
8.60% unsecured notes (U.S. $300 million)	2001	381	347
9.25% unsecured debentures (U.S. $300 million)	2021	381	347
7.25% unsecured debentures (1991-U.S. $200 million)		—	231
9.50% unsecured debentures (1991-U.S. $200 million)		—	231
8.80% unsecured debentures (1991-U.S. $200 million)		—	231
		957	1 531
Less current portion[1]		89	—
		$ 868	$ 1 531

[1] *Guaranteed by Petro-Canada Limited, the former parent company of Petro-Canada. The Company is required to pay a guarantee fee, the amount of which depends on the Company's credit rating. Based on the Company's current credit rating, the guarantee fee is ½ of 1% per annum of the outstanding debt.*

At December 31, 1992 cash and short-term deposits of $89 million was designated for retirement of these LIBOR notes (leaving outstanding cheques less cash and short-term deposits of $7 million); U.S. $60 million of these notes has since been retired.

[2] *Canadian dollar notes and the related interest payments have been converted into U.S. $83 million through a currency swap arrangement, resulting in an effective interest rate of 7.39% which includes the foreign exchange effect, net of income tax, inherent in the notes' financing structure.*

The minimum repayment of long-term debt in the next five years, in addition to the current portion of $89 million, is $106 million in 1997.

17. Deferred Credits

	1992	1991
Future removal and site restoration costs	$ 191	$ 311
Long-term liabilities	57	86
Advances on future natural gas deliveries	16	31
Translation adjustment on long-term debt	—	31
	$ 264	$ 459

(stated in millions of dollars)

18. Shareholders' Equity

	1992	1991
Common shares	$ 799	$ 555
Contributed surplus	2 572	2 572
Retained earnings (deficit)	(728)	(634)
	$ 2 643	$ 2 493

The authorized share capital of the Company is comprised of an unlimited number of:

(a) Preferred shares issuable in series designated as Senior Preferred Shares;

(b) Preferred shares issuable in series designated as Junior Preferred Shares; and

(c) Common shares.

Changes in share capital and contributed surplus were as follows:

	1992			1991		
	Common Shares		Contributed Surplus	Common Shares		Contributed Surplus
	Shares	Amount		Shares	Amount	
Balance at beginning of year	215 294 888	$ 555	$ 2 572	4 405 921	$ 1	$ 2 572
Issued under employee purchase plan	818 277	—	—	—	—	—
Issued for cash	30 350 000	244	—	42 042 199	554	—
Subdivision of shares	—	—	—	168 846 768	—	—
Balance at end of year	246 463 165	$ 799	$ 2 572	215 294 888	$ 555	$ 2 572

	1990		
	Common Shares		Contributed Surplus
	Shares	Amount	
Balance at beginning of year	4 216 011	$ 1 000	$ 1 550
Issued for cash	189 910	158	—
Reduction of stated capital	—	(1 157)	1 157
Transfer to retained earnings	—	—	(135)
Balance at end of year	4 405 921	$ 1	$ 2 572

As at December 31, 1992 stock options were outstanding for 1 235 208 shares at $13.00 and 526 000 shares at $8.125. These options, which were granted under the terms of the Executive Stock Option Plan, expire on July 3, 2001 and July 29, 2002, respectively.

In June 1991 the Company approved Articles of Amendment subdividing its outstanding shares on a 39 for 1 basis.

In October 1990 a reduction in the common share stated capital of $1 157 million and a corresponding increase in contributed surplus, together with a transfer from contributed surplus to retained earnings, were approved. The transfer from contributed surplus to retained earnings offset a deficit of $135 million.

(stated in millions of dollars)

19. Pension Plans

The Company's plans are defined benefit plans with the benefits generally based upon years of service and average salary during the final years of employment. The registered pension plans are funded by the Company, based upon the advice of an independent actuary, and the assets are held primarily in equity, fixed income and other marketable securities.

	1992	1991
Financial Status		
Actuarial value of assets	$ 650	$ 627
Pension obligation	610	582
Net pension asset	$ 40	$ 45

The net pension asset is amortized to earnings over the expected average remaining service life of the employees covered by the plans, which is currently 13 years.

As at December 31, 1992 $596 million (December 31, 1991 – $564 million) of the pension obligation was vested.

	1992	1991	1990
Pension Expense			
Current service cost	$ 24	$ 23	$ 21
Interest cost	52	48	42
Actual return on plan assets	(24)	(83)	22
Net amortization and deferral	(37)	29	(73)
	$ 15	$ 17	$ 12
Pension Funding	$ 26	$ 28	$ 9
Plan Assumptions			
Discount rate	9.0%	9.0%	9.0%
Long-term rate of return on plan assets	9.0%	9.0%	9.0%
Rate of compensation increase, excluding merit increases	6.0%	6.0%	6.0%

20. Related Party Transactions

Transactions with the Government of Canada and its agencies, and other related parties, are in the normal course of business and are therefore on the same terms as those accorded to non-related parties.

As at December 31, 1992, officers and employees of the Company owed the Company $7 million (1991 – $13 million) in relation to stock purchase plans.

(stated in millions of dollars)

21. Segmented Information

The Company operates in two business segments:

Natural Resources, comprising: exploration, development, production, transportation and marketing activities for crude oil, natural gas, field liquids, sulphur and oil sands; and extraction of liquids from natural gas.

Refined Products, comprising: purchase and sale of crude oil; refining crude oil into oil products; and distribution and marketing of these and other purchased products.

Financial information by business segment is presented in the following table as though each segment were a separate business entity. Inter-segment transfers of products, which are accounted for at market value, are eliminated on consolidation. Corporate and Other includes propane marketing, investment income, interest expense and unallocated general corporate revenues and expenditures. Corporate and Other assets are principally cash and short-term deposits, investments in other companies, propane marketing assets and general corporate assets.

	Natural Resources			Refined Products		
	1992	1991	1990	1992	1991	1990
Revenue						
Sales to customers and other revenues	$ 410	$ 405	$ 506	$ 3 979	$ 4 174	$ 4 934
Inter-segment sales	616	664	808	21	19	14
Segment Revenue	$ 1 026	$ 1 069	$ 1 314	$ 4 000	$ 4 193	$ 4 948
Earnings						
Operating earnings (loss) before the following:	$ 500	$ 427	$ 672	$ 227	$ (15)	$ 375
Depreciation, depletion and amortization	(194)	(212)	(187)	(164)	(162)	(155)
Exploration expense	(56)	(113)	(111)	—	—	—
Unusual items	—	(138)	—	—	(655)	—
(Provision for) recovery of income taxes	(101)	(28)	(175)	(33)	344	(95)
Net Earnings (Loss)	$ 149	$ (64)	$ 199	$ 30	$ (488)	$ 125
Capital and Exploration Expenditures						
Property, plant and equipment and exploration expenditures	$ 331	$ 341	$ 393	$ 109	$ 287	$ 221
Investments	—	—	—	3	2	1
Deferred charges and other assets	1	4	2	(6)	2	10
	$ 332	$ 345	$ 395	$ 106	$ 291	$ 232
Total Assets	$ 2 371	$ 2 485	$ 2 724	$ 2 413	$ 2 724	$ 3 694
Capital Employed	$ 2 120	$ 2 247	$ 2 474	$ 1 799	$ 2 161	$ 2 995

(stated in millions of dollars)

21. Segmented Information (continued)

	Corporate and Other			Consolidated		
	1992	1991	1990	1992	1991	1990
Revenue						
Sales to customers and other revenues	$ 329	$ 382	$ 433	$ 4 718	$ 4 961	$ 5 873
Inter-segment sales	—	—	—			
Segment Revenue	$ 329	$ 382	$ 433			
Earnings						
Operating earnings (loss) before the following:	$ 18	$ 112	$ 54	$ 745	$ 524	$ 1 101
Depreciation, depletion and amortization	(33)	(33)	(31)	(391)	(407)	(373)
Exploration expense	—	—	—	(56)	(113)	(111)
Interest	(120)	(203)	(278)	(120)	(203)	(278)
Unusual items	(121)	23	—	(121)	(770)	—
(Provision for) recovery of income taxes	86	55	107	(48)	371	(163)
Net Earnings (Loss)	$ (170)	$ (46)	$ (148)	$ 9	$ (598)	$ 176
Capital and Exploration Expenditures						
Property, plant and equipment and exploration expenditures	$ 16	$ 24	$ 29	$ 456	$ 652	$ 643
Investments	(1)	(51)	49	2	(49)	50
Deferred charges and other assets	17	23	5	12	29	17
Acquisition of ICG Propane Inc.	—	—	235	—	—	235
	$ 32	$ (4)	$ 318	$ 470	$ 632	$ 945
Total Assets	$ 566	$ 825	$ 860	$ 5 350	$ 6 034	$ 7 278
Capital Employed	$ 409	$ 757	$ 663	$ 4 328	$ 5 165	$ 6 132

22. Commitments and Contingent Liabilities

(a) The Company has leased property and equipment under various long-term operating leases for periods up to 2012. The minimum annual rentals for non-cancellable operating leases are estimated at $92 million in 1993, $84 million in 1994, $69 million in 1995, $57 million in 1996, $47 million in 1997 and $23 million per year thereafter until 2012.

(b) During 1990 the Company signed agreements with other joint venture participants and with the governments of Canada and of Newfoundland and Labrador to develop the Hibernia offshore oil field. Costs of this development project to production start-up are estimated at $5.1 billion; the Company's 25% share after government contributions is expected to be approximately $1.0 billion (before related investment tax credits), of which $182 million had been expended to December 31, 1992. The Company's investment in the Project will be financed, in part, by government guaranteed limited-recourse loans to a maximum of $415 million (Note 15). Changes in project design have held estimated costs prior to production start-up essentially constant despite a one year delay, and have resulted in the Company's share of estimated development costs subsequent to production start-up being reduced to $550 million. It is anticipated that the development costs subsequent to production start-up will be financed from cash flow from the Project.

The Company has announced its intention to sell a minority percentage of its interest in the Hibernia Project; the timing and extent of such a sale is uncertain.

(c) A significant portion of the Company's anticipated revenues and costs are affected by the U.S./Canadian dollar exchange rate. In order to reduce this foreign exchange exposure the Company has implemented a hedging program utilizing a foreign exchange option structure. The Company recognizes gains and losses when the hedged revenue is realized. Unrealized losses were $21 million (before income taxes) at December 31, 1992.

(d) The Company has sold forward 50% of its estimated 1993 net crude oil production at an average price of U.S. $21 per barrel.

(e) The Company is involved in litigation and claims associated with normal operations. Management is of the opinion that any resulting settlements would not materially affect the financial position of the Company.

23. Comparative Figures

Certain reclassifications have been made to the 1991 and 1990 comparative figures to conform with the current year's presentation.

(unaudited, stated in millions of Canadian dollars)

Generally Accepted Accounting Principles in the United States

The Company's consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada, which differ in some respects from those applicable in the United States. The significant differences in accounting principles as they pertain to the accompanying consolidated financial statements are described in the Company's Form 20-F report, which is filed with the Securities and Exchange Commission in the United States.

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves

The following disclosures on standardized measure of discounted cash flows and changes therein relating to proved oil and gas reserves are determined in accordance with the United States Financial Accounting Standards Board Statement No. 69 ("Disclosures About Oil and Gas Producing Activities").

The future cash flows are calculated by applying year-end prices, or prices provided by contractual arrangements, net of royalties, to year-end quantities of proved oil and gas reserves. Future production, development and site restoration costs are based on year-end costs and estimated future income taxes are based on year-end rates. The resulting future net cash flows are discounted at 10% per annum. The calculation does not represent a fair market value of the Company's oil and gas reserves or of the future net cash flows. Cash flows from the Company's interest in Syncrude are not included and no consideration is given to the value of exploration properties or probable reserves.

Present Value of Estimated Future Net Cash Flows

	1992	1991	1990
Future cash flows	$ 6 414	$ 5 618	$ 10 555
Future production, development and site restoration costs	2 426	2 632	3 343
Future income taxes	1 555	1 044	2 787
Future net cash flows	2 433	1 942	4 425
Discount of 10 per cent for estimated timing of cash flows	1 008	754	2 027
Discounted future net cash flows	$ 1 425	$ 1 188	$ 2 398

Summary of Changes in Present Value of Estimated Future Net Cash Flows

	1992	1991	1990
Balance at Beginning of Year	$ 1 188	$ 2 398	$ 1 944
Changes result from:			
Sales and transfers of oil and gas produced, net of production costs	(338)	(373)	(519)
Net changes in prices, operating costs and royalties	486	(1 736)	865
Extensions, discoveries, additions and improved recovery	19	32	284
Changes in estimated future development costs	16	19	43
Development costs incurred during the year	45	63	79
Revisions of previous quantity estimates	222	(227)	(104)
Accretion of discount	168	372	298
Net change in income tax	(312)	834	(286)
Purchase and sale of reserves in place	(21)	(95)	(17)
Changes in timing and other	(48)	(99)	(189)
Net change	237	(1 210)	454
Balance at End of Year	$ 1 425	$ 1 188	$ 2 398

(unaudited, stated in millions of Canadian dollars)

Oil and Gas Producing Activities

The following tables have been prepared in accordance with the provisions of the United States Financial Accounting Standards Board Statement No. 69. Activities associated with natural gas extraction plants, petroleum products and general corporate costs are not included in these tables.

Results of Operations

	Oil and Gas								
	Canada non-frontier			Canada frontier			Foreign		
	1992	1991	1990	1992	1991	1990	1992	1991	1990
Sales to customers	$ 207	$ 209	$ 213	$ —	$ —	$ —	$ —	$ —	$ —
Inter-segment sales	322	376	496	—	—	—	—	—	—
Total sales	529	585	709	—	—	—	—	—	—
Production expenses	174	221	205	—	—	—	—	—	—
Exploration expenses	25	63	62	3	9	14	28	41	35
Depreciation, depletion and amortization	153	161	132	—	—	—	2	3	3
Income taxes	89	85	151	(1)	(4)	(7)	(13)	(19)	(16)
Results of operations	$ 88	$ 55	$ 159	$ (2)	$ (5)	$ (7)	$ (17)	$ (25)	$ (22)

	Oil and Gas								
	Bitumen and Other			Syncrude Project			Total		
	1992	1991	1990	1992	1991	1990	1992	1991	1990
Sales to customers	$ —	$ —	$ —	$ —	$ —	$ —	$ 207	$ 209	$ 213
Inter-segment sales	1	9	20	190	229	257	513	614	773
Total sales	1	9	20	190	229	257	720	823	986
Production expenses	(32)	12	11	134	165	161	276	398	377
Exploration expenses	—	—	—	—	—	—	56	113	111
Depreciation, depletion and amortization	—	—	5	15	25	24	170	189	164
Syncrude writedown	—	—	—	—	138	—	—	138	—
Income taxes	12	(1)	1	13	(33)	24	100	28	153
Results of operations	$ 21	$ (2)	$ 3	$ 28	$ (66)	$ 48	$ 118	$ (43)	$ 181

(unaudited, stated in millions of Canadian dollars)

Oil and Gas Producing Activities (continued)

Capitalized Costs

	Oil and Gas					
	Canada non-frontier		Hibernia Project		Other frontier	
	1992	1991	1992	1991	1992	1991
Proved and unproved oil and gas properties	$ 3 141	$ 3 261	$ 214	$ 121	$ 62	$ 61
Accumulated depreciation, depletion and amortization	1 782	1 810	—	—	—	—
Net capitalized costs	$ 1 359	$ 1 451	$ 214	$ 121	$ 62	$ 61

	Oil and Gas							
	Foreign		Bitumen and Other		Syncrude Project		Total	
	1992	1991	1992	1991	1992	1991	1992	1991
Proved and unproved oil and gas properties	$ 16	$ 21	$ 219	$ 452	$ 521	$ 812	$ 4 173	$ 4 728
Accumulated depreciation, depletion and amortization	8	6	219	452	172	330	2 181	2 598
Net capitalized costs	$ 8	$ 15	$ —	$ —	$ 349	$ 482	$ 1 992	$ 2 130

Costs Incurred

	Oil and Gas								
	Canada non-frontier			Hibernia Project			Other frontier		
	1992	1991	1990	1992	1991	1990	1992	1991	1990
Property costs									
Proved	$ 95	$ 23	$ 95	$ —	$ —	$ —	$ —	$ —	$ —
Unproved	—	14	28	—	—	—	—	—	—
Exploration costs	32	73	62	—	—	—	3	7	14
Development costs	47	81	94	93	62	12	—	2	3

	Oil and Gas											
	Foreign			Bitumen and Other			Syncrude Project			Total		
	1992	1991	1990	1992	1991	1990	1992	1991	1990	1992	1991	1990
Property costs												
Proved	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 95	$ 23	$ 95
Unproved	(2)	—	9	—	—	—	—	—	—	(2)	14	37
Exploration costs	26	44	36	—	—	—	—	—	—	61	124	112
Development costs	—	—	—	2	1	5	9	25	23	151	171	137

Oil and Gas Landholdings (gross/net)[1]

(millions of acres)	1992			1991			1990		
	Developed[2]	Undeveloped[3]	Total	Developed	Undeveloped	Total	Developed	Undeveloped	Total
Alberta									
Conventional	2.3/0.8	1.1/0.5	3.4/1.3	2.5/1.1	1.5/0.9	4.0/2.0	2.8/1.1	1.6/1.0	4.4/2.1
Oilsands	0.1/—	0.9/0.3	1.0/0.3	0.5/0.1	1.8/0.6	2.3/0.7	0.5/0.2	1.8/0.6	2.3/0.8
British Columbia	0.6/0.4	0.6/0.4	1.2/0.8	0.8/0.5	0.8/0.6	1.6/1.1	0.8/0.5	1.1/0.7	1.9/1.2
Saskatchewan/ Manitoba	0.3/0.1	0.3/0.3	0.6/0.4	0.3/0.1	0.5/0.4	0.8/0.5	0.3/0.1	0.6/0.4	0.9/0.5
Frontier Canada	—/—	12.6/10.6	12.6/10.6	—/—	13.2/10.8	13.2/10.8	—/—	14.1/11.1	14.1/11.1
International	—/—	10.3/4.4	10.3/4.4	—/—	10.4/5.0	10.4/5.0	—/—	17.9/9.9	17.9/9.9
Total	3.3/1.3	25.8/16.5	29.1/17.8	4.1/1.8	28.2/18.3	32.3/20.1	4.4/1.9	37.1/23.7	41.5/25.6

[1] *Gross acres includes the interests of others while net acres excludes the interests of others.*

[2] *Developed lands refers to areas in which Petro-Canada has an interest in producing wells or wells capable of production.*

[3] *Undeveloped lands refers to areas, other than developed lands, in which Petro-Canada has rights to explore for oil and natural gas.*

Net Reserves of Crude Oil, Natural Gas and Sulphur

Crude oil and field natural gas liquids

At year-end 1992, prices for benchmark light crude were up 8 per cent and prices for benchmark heavy crude oil were up 23 per cent, compared to year-end 1991. The prices for light crude at Edmonton and heavy crude at Hardisty were $22.74 and $15.39 per barrel respectively. This resulted in the reclassification of certain reserves from probable to proved, in addition to new reserves booked at Shekilie and positive revisions at Golden Lake, Wainwright and Redwater.

In 1992, the Company disposed of and acquired properties as part of its Western Canada asset rationalization program. This resulted in a net increase of proved crude oil and field natural gas liquids reserves of 1.7 million barrels.

In March 1992, Petro-Canada sold a 5 per cent interest in Syncrude resulting in a 60.6 million barrel reserve change. The positive revision of 44.1 million barrels relates to the extension of the operating permit from 2013 to 2018 and increased production rates.

Based on the consensus view developed by the non-withdrawing participants of the Hibernia consortium, 154 million barrels of recoverable reserves before royalties are attributable to the Company's 25 per cent interest in Hibernia. It is the consensus view that the Hibernia peak production rate will average 125 000 barrels per day. Reserves will be booked when appropriate during the development and production phases of this project. In September 1991, Petro-Canada announced its intention to sell a minority percentage of its interest in Hibernia, although the timing and extent of any such sale is uncertain.

Natural gas

At year-end 1992, prices were up 10 per cent compared to year-end 1991, resulting in the reclassification of certain reserves from probable to proven. The year-end average price for natural gas was $1.34 per thousand cubic feet. Revisions at Grassy, Klua and Yoyo offset the reserves added through upward price revisions for a net increase of 7.2 billion cubic feet.

Asset rationalization in 1992 resulted in a net reduction of reserves of 63.2 billion cubic feet.

Net Reserves of Crude Oil, Natural Gas and Sulphur (continued)

	Crude Oil and Field Natural Gas Liquids (millions of barrels)				Natural Gas (billions of cubic feet)	Sulphur (millions of tons)
	Conventional Western Provinces	Conventional International	Synthetic Crude Oil and Bitumen [1]	Total		
Net Proved Developed and Undeveloped Reserves after Royalties [2,3]						
Beginning of year 1990	217.7	3.4	212.6	433.7	2 700.9	4.9
Revisions of previous estimates [4]	(1.4)	(0.9)	5.7	3.4	(171.1)	0.7
Improved recovery methods	25.8	—	—	25.8	0.4	—
Purchase (sale) of reserves in place	1.3	(2.6)	—	(1.3)	(3.8)	—
Discoveries and extensions	2.5	0.1	—	2.6	82.7	—
Production	(19.0)	—	(10.7)	(29.7)	(144.0)	(0.3)
End of year 1990	226.9	—	207.6	434.5	2 465.1	5.3
Revisions of previous estimates [4]	(35.4)	0.9	11.4	(23.1)	(126.3)	(0.2)
Improved recovery methods	—	—	—	—	—	—
Purchase (sale) of reserves in place	(15.7)	—	—	(15.7)	(78.5)	0.2
Discoveries and extensions	1.9	—	—	1.9	86.9	0.3
Production	(18.2)	—	(11.2)	(29.4)	(157.8)	(0.4)
End of year 1991	159.5	0.9	207.8	368.2	2 189.4	5.2
Revisions of previous estimates [4]	31.9	—	44.1	76.0	7.2	(0.5)
Improved recovery methods	—	—	—	—	—	—
Purchase (sale) of reserves in place	1.7	(0.2)	(60.6)	(59.1)	(63.2)	—
Discoveries and extensions	2.8	—	—	2.8	2.2	—
Production	(16.5)	—	(8.7)	(25.2)	(154.6)	(0.3)
End of year 1992	179.4	0.7	182.6	362.7	1 981.0	4.4
Net Proved Developed Reserves after Royalties						
End of 1990	182.6	—	207.6	390.2	1 726.8	4.7
End of 1991	121.2	—	207.8	329.0	1 571.8	4.5
End of 1992	148.2	0.7	182.6	331.5	1 446.8	3.7
Net Proved Developed and Undeveloped Reserves before Royalties [2,3]						
End of 1990	275.4	—	243.3	518.7	3 024.7	6.2
End of 1991	194.0	1.1	227.9	423.0	2 653.8	6.1
End of 1992	214.4	0.9	202.0	417.3	2 404.1	5.2

[1] Proved developed reserves of synthetic crude oil are based on an average gross production rate at Syncrude of 178 000 barrels per day to the year 2018. Proved reserve quantities would increase if increased production rates are realized or if the operating permit were extended beyond 2018.

[2] Net proved developed and undeveloped reserves after royalties are Petro-Canada's working interest in reserves after the deduction of Crown or other royalties. Such royalties are subject to change by legislation or regulation and can also vary depending on production rates, selling prices and timing of initial production. No reserve quantities have been included to reflect royalty interests Petro-Canada has in various properties.

Net Reserves of Crude Oil, Natural Gas and Sulphur (continued)

3 Proved reserves are the estimated quantities of crude oil, natural gas, natural gas liquids and sulphur which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, including reserves to be obtained by enhanced recovery processes demonstrated to be successful and from that portion of an area delineated by drilling and defined by gas-oil and/or oil-water contacts in drilled wells or immediately adjacent portions not yet drilled but which can be reasonably evaluated as economically productive, on the basis of geological, geophysical and engineering data. Proved developed reserves are those proved reserves that are expected to be recovered from existing wells or facilities. Proved undeveloped reserves are proved reserves which are not recoverable from existing wells or facilities, but that are expected to be recovered through additional development drilling or through the upgrading of existing or additional new facilities.

4 Revisions to recoverable reserve estimates resulting from the application of year-end product prices and uninflated operating and expected development costs as at year end are included in 1990, 1991 and 1992 revisions to previous estimates. Prior to 1990, Petro-Canada estimated its proved reserves based on minimum economic production rates expected under future economic conditions.

Refining by Locations

Petro-Canada owns and operates four refineries, the Lake Ontario, Edmonton, Port Moody and Montreal refineries, which produce a full slate of refined petroleum products, including gasolines, diesel fuels, heating oils, aviation fuels, heavy fuel oils, asphalts, lubricants and petrochemical feedstocks.

In January 1992, Petro-Canada announced that, in order to improve profitability, it is mothballing refining units located at Port Moody and the Mississauga plant of the Lake Ontario refinery, and will seek to sell or joint venture its Montreal refinery.

	Average volumes of crude oil processed per calendar day [1]			Daily rated capacity as at December 31,
(thousands of cubic metres)	1992	1991	1990	1992 [2,3]
Lake Ontario, Ontario	13.6	13.7	15.2	19.4
Edmonton, Alberta	14.3	13.9	13.9	18.4
Montreal, Quebec [4]	9.3	10.6	12.2	13.9
Port Moody, British Columbia [5]	4.4	2.3	—	5.9
Taylor, British Columbia [6]	—	0.9	2.3	—
Total	41.6	41.4	43.6	57.6

1 For refineries which closed or recommenced processing crude oil part way through the year, average daily volumes are calculated as if the refinery had operated all year. As a result, actual daily volumes will be greater than those shown in the table.

2 Daily rated capacity is based on calendar days and definite specifications as to types of crude oil, the products to be obtained and the refinery process required. Variations in these factors may result in actual capacity being higher or lower than rated capacities.

3 Petro-Canada's average rated capacity utilization was 72 per cent in 1992 compared to 74 per cent in 1991. Average refinery utilization takes into account, where applicable, changes in refinery crude capacity that occurred during the year.

4 In 1990, the Montreal refinery processing volumes include partially processed feedstock supplied by the lubricants plant of the Lake Ontario refinery. Purchases of partially processed feedstock of 300 cubic metres a day in 1991 and 1 600 cubic metres a day in 1992 are not included in refinery processing volumes.

5 As a result of the operational integration of the Edmonton and Port Moody facilities, the Port Moody processing volumes were included in the volumes for the Edmonton refinery during 1989 and 1990. Port Moody recommenced processing crude oil in June 1991.

6 The Taylor refinery was closed in July 1991. Daily rated capacity of this refinery was 2 500 cubic metres.

Supply Information

Petro-Canada obtains its crude oil and other refinery feedstock requirements primarily from purchases in domestic markets. Petro-Canada's 1992 gross crude oil production represented approximately 30 per cent of the Company's refinery requirements.

(thousands of cubic metres)	Average volumes of crude oil processed per calendar day [1]		
	1992	1991	1990
Net domestic supply [2]	32.3	30.8	36.1
Net foreign purchases [3]	9.3	10.6	7.5
Processed by Petro-Canada	41.6	41.4	43.6
Processed for others	(13.6)	(13.1)	(12.4)
Processed by others	10.6	10.5	10.6
Total Petro-Canada requirements	38.6	38.8	41.8

[1] *For refineries and processing agreements acquired part way through a year, average daily volumes are calculated as if the acquisition had occurred at the start of the year and had operated all year at the same level as that following the acquisition. Due to seasonal variations, the average daily volumes shown will not necessarily be indicative of normal full-year refinery operations.*

[2] *Net domestic supply consists of Petro-Canada's net domestic production plus purchases of domestic crude oil less the Company's domestic and export sales of crude oil. In addition, it includes crude oil supplied by others for processing.*

[3] *Foreign purchases increased in 1991, primarily due to the shutdown of the pipeline from Sarnia to Montreal and the need to replace Western Canadian crude oil normally shipped through that line. This change in source of supply has not had a material financial impact on the Company.*

SIX YEAR FINANCIAL AND OPERATING SUMMARY

(stated in millions of dollars, unless otherwise indicated)

	1992	1991	1990	1989	1988	1987
Consolidated						
Summary of Statement of Earnings						
Revenue	$ 4 718	$ 4 961	$ 5 873	$ 5 026	$ 4 801	$ 5 079
Expenses	4 540	5 160	5 534	4 869	4 822	4 776
	178	(199)	339	157	(21)	303
Unusual Items	(121)	(770)	—	(92)	(20)	—
Provision for (recovery of) income taxes	48	(371)	163	49	31	175
Net earnings (loss) before dividends on redeemable preferred shares	9	(598)	176	16	(72)	128
Dividends on redeemable preferred shares	—	—	—	—	10	41
Net earnings (loss) after dividends on redeemable preferred shares	$ 9	$ (598)	$ 176	$ 16	$ (82)	$ 87
Summary of Statement of Changes in Financial Position						
Operating activities						
Cash flow from operations	$ 517	$ 292	$ 621	$ 452	$ 607	$ 767
Other	(15)	(18)	(20)	(26)	(23)	(11)
Decrease (increase) in operating working capital	54	108	(307)	(22)	270	(173)
	556	382	294	404	854	583
Investing activities	134	(300)	(689)	(392)	(850)	(586)
Financing activities and dividends	(596)	(130)	404	(69)	72	104
Increase (decrease) in cash and short-term deposits	$ 94	$ (48)	$ 9	$ (57)	$ 76	$ 101
Summary of Balance Sheet						
Assets						
Current assets	$ 1 156	$ 1 330	$ 1 821	$ 1 557	$ 1 420	$ 1 676
Property, plant and equipment, net	3 865	4 084	4 778	4 626	4 617	4 492
Investments and deferred charges and other assets	329	620	679	560	622	577
Total	$ 5 350	$ 6 034	$ 7 278	$ 6 743	$ 6 659	$ 6 745
Liabilities and shareholders' equity						
Current liabilities						
Short-term debt	$ 175	$ 118	$ 705	$ 716	$ 974	$ 319
Other current liabilities	933	869	1 146	1 189	1 019	1 093
	1 108	987	1 851	1 905	1 993	1 412
Long–term debt	868	1 531	1 537	1 232	1 036	744
Deferred credits	264	459	367	399	373	307
Deferred income taxes	467	564	941	914	935	950
Redeemable preferred shares	—	—	—	—	—	831
	2 707	3 541	4 696	4 450	4 337	4 244
Shareholders' equity	2 643	2 493	2 582	2 293	2 322	2 501
Total	$ 5 350	$ 6 034	$ 7 278	$ 6 743	$ 6 659	$ 6 745
Average Capital Employed	$ 4 682	$ 5 649	$ 5 843	$ 5 597	$ 5 646	$ 5 510

SIX YEAR FINANCIAL AND OPERATING SUMMARY

(stated in millions of dollars, unless otherwise indicated)

	1992	1991	1990	1989	1988	1987
Consolidated (continued)						
Financial Indicators (per cent)						
Performance						
Cash flow return on capital employed	12.4	7.3	13.6	10.4	12.2	14.8
Return on capital employed	1.5	(8.5)	5.9	2.6	0.1	3.2
Return on equity	0.4	(23.6)	7.2	0.7	(3.5)	3.7
Liquidity and Leverage						
Current ratio (times)	1.0	1.3	1.0	0.8	0.7	1.2
Debt to cash flow (times)	1.8	5.6	3.6	4.3	3.4	2.7
Interest coverage (times)						
– earnings basis	1.4	(3.6)	2.2	1.3	0.6	2.3
– cash flow basis	5.5	2.3	3.7	3.3	4.6	5.4
Debt to debt plus equity	26.5	39.8	46.5	45.9	46.4	45.2
Expenditures on Property, Plant and Equipment and Exploration						
Resources division	$ 331	$ 341	$ 393	$ 334	$ 612	$ 335
Products division	109	287	221	209	161	122
Corporate and Other	16	24	29	25	29	29
Total	$ 456	$ 652	$ 643	$ 568	$ 802	$ 486
Acquisitions	$ —	$ —	$ 235	$ —	$ —	$ —
Reinvestment Ratio (times)	(0.26)	1.03	1.11	0.87	1.42	0.81
Employees (number at year end)						
Petro-Canada	5 329	6 213	6 353	6 468	7 373	7 204
ICG Propane	1 338	1 405	1 488	—	—	—
Other subsidiaries	1 593	1 906	1 965	2 329	2 345	2 102
Total	8 260	9 524	9 806	8 797	9 718	9 306
Shareholders' Data						
Weighted average number of common shares outstanding (millions)	217.1	194.1				
Common shares outstanding at year end (millions)	246.5	215.3				
Publicly held common shares at year end (millions)	73.2	42.0				
Share prices (dollars) [2]						
– at year end	8⅛	9½				
– range during the year	10⅞ – 7⅞	13¼ – 9				
Shares traded (millions) [3]	27.0	32.3				
Number of registered shareholders	11 603	7 176				

SIX YEAR FINANCIAL AND OPERATING SUMMARY

(stated in millions of dollars, unless otherwise indicated)

	1992	1991	1990	1989	1988	1987
Resources Division						
Annual Operating Revenues						
Crude oil and field natural gas liquids						
Conventional crude oil	$ 248	$ 271	$ 379	$ 356	$ 307	$ 413
Synthetic and bitumen	192	236	275	207	175	211
Field natural gas liquids	60	57	66	48	46	57
	500	564	720	611	528	681
Natural gas	195	219	221	246	222	203
Sulphur	5	16	17	21	23	25
Ethane and natural gas liquids from straddle plants	152	166	200	167	152	145
Other	174	104	156	106	64	84
Total	$ 1 026	$ 1 069	$ 1 314	$ 1 151	$ 989	$ 1 138
Earnings (loss) from operations	$ 149	$ 31	$ 199	$ 84	$ (113)	$ 89
Unusual items	—	(95)	—	—	(22)	—
Net Earnings (Loss)	$ 149	$ (64)	$ 199	$ 84	$ (135)	$ 89
Cash Flow from Operations	$ 366	$ 303	$ 480	$ 374	$ 406	$ 566
Expenditures on Property, Plant and Equipment and Exploration						
Exploration						
Western provinces	$ 32	$ 85	$ 90	$ 99	$ 129	$ 101
Other frontier	3	8	14	7	47	36
International	24	45	45	51	23	12
Development						
Western provinces	47	81	94	104	158	101
Hibernia Project	93	62	12	3	2	4
Other frontier	—	2	3	2	5	1
International	—	—	—	—	3	—
Oil sands						
Syncrude Project	9	25	23	13	42	44
Other	2	1	5	27	96	35
Marketing and other	26	9	12	5	6	6
Property acquisitions	95	23	95	32	101	—
	331	341	393	343	612	340
Petroleum Incentive Program grants	—	—	—	9	—	5
Total	$ 331	$ 341	$ 393	$ 334	$ 612	$ 335

SIX YEAR FINANCIAL AND OPERATING SUMMARY

(stated in millions of dollars, unless otherwise indicated)

	1992	1991	1990	1989	1988	1987
Resources Division (continued)						
Daily Production						
(net, before royalties/after royalties)						
Crude oil (thousands of barrels)						
Conventional crude oil	42.9/35.3	48.5/40.1	52.0/42.9	59.1/48.5	63.2/51.0	63.5/50.7
Synthetic and bitumen	24.3/23.7	31.8/31.2	30.1/29.5	28.4/27.8	28.6/28.1	26.6/26.0
Field natural gas liquids	12.6/10.1	12.2/9.8	12.2/9.2	12.9/9.5	13.4/9.7	13.2/10.0
Total	79.8/69.1	92.5/81.1	94.3/81.6	100.4/85.8	105.2/88.8	103.3/86.7
Ethane and natural gas liquids production from straddle plants (thousands of barrels)	36.4/36.4	34.0/34.0	42.4/42.4	44.8/44.8	40.4/40.4	39.6/39.6
Natural gas (millions of cubic feet)						
including injectants (before royalties)	517	524	498	573	485	435
excluding injectants	507/419	508/416	484/395	556/448	472/382	425/343
Sulphur (thousands of tons)	0.8/0.7	1.1/0.9	1.1/0.9	1.0/0.8	1.0/0.8	0.9/0.8
Average sales prices						
Conventional crude oil, synthetic crude oil, bitumen and field natural gas liquids ($ per barrel)	19.65	19.21	24.02	19.36	16.13	21.55
Natural gas ($ per thousand cubic feet)	1.28	1.39	1.53	1.48	1.60	1.62
Proved Reserves						
(net, before royalties/after royalties)						
Crude oil and field natural gas liquids (millions of barrels)	417/363	423/368	519/435	528/434	592/484	563/461
Natural gas (trillions of cubic feet)	2.4/2.0	2.7/2.2	3.0/2.5	3.4/2.7	3.5/2.8	3.4/2.8
Sulphur (millions of tons)	5.2/4.4	6.1/5.2	6.2/5.3	5.8/4.9	6.2/5.2	5.2/4.3
Oil and Gas Landholdings (gross/net)						
(millions of acres)	29.1/17.8	32.3/20.1	41.5/25.6	37.2/23.3	36.8/20.8	33.8/20.5

SIX YEAR FINANCIAL AND OPERATING SUMMARY

(stated in millions of dollars, unless otherwise indicated)

	1992	1991	1990	1989	1988	1987
Resources Division (continued)						
Wells drilled (gross/net)						
Western provinces – exploration wells						
Oil	5/3	2/2	3/1	9/9	16/13	18/11
Natural gas	4/1	7/5	8/6	18/16	31/25	9/5
Dry	5/2	5/3	14/12	23/20	29/21	30/23
	14/6	14/10	25/19	50/45	76/59	57/39
Western provinces – development wells						
Oil	44/22	33/7	67/24	93/22	164/88	196/73
Natural gas	37/5	55/15	83/28	58/26	87/38	40/26
Oil sands	—/—	—/—	—/—	20/6	266/133	75/38
Dry	4/0	6/2	7/4	8/4	11/6	19/13
	85/27	94/24	157/56	179/58	528/265	330/150
Frontier Canada – exploration wells						
Oil	—/—	1/—	—/—	1/—	2/1	3/1
Natural gas	—/—	—/—	—/—	1/—	1/—	—/—
Dry	—/—	3/1	3/2	—/—	3/1	4/2
	—/—	4/1	3/2	2/—	6/2	7/3
International – exploration and development wells						
Oil	—/—	—/—	1/1	2/1	1/1	—/—
Natural gas	—/—	2/—	—/—	—/—	—/—	—/—
Dry	6/2	5/2	9/4	4/2	3/1	2/—
	6/2	7/2	10/5	6/3	4/2	2/—
Total	105/35	119/37	195/82	237/106	614/328	396/192
Products Division						
Annual Operating Revenues						
Gasolines	$ 1 904	$ 1 994	$ 2 395	$ 2 117	$ 2 050	$ 2 240
Distillates	1 165	1 250	1 475	1 303	1 284	1 384
Other including petrochemicals	931	949	1 078	1 022	911	837
Total	$ 4 000	$ 4 193	$ 4 948	$ 4 442	$ 4 245	$ 4 461
Earnings (loss) from operations	$ 30	$ (109)	$ 125	$ 105	$ 101	$ 94
Unusual item	—	(379)	—	—	—	—
Net Earnings (Loss)	$ 30	$ (488)	$ 125	$ 105	$ 101	$ 94
Cash Flow from Operations	$ 200	$ 15	$ 258	$ 237	$ 230	$ 294
Expenditures on Property, Plant and Equipment						
Refining	$ 59	$ 81	$ 89	$ 115	$ 82	$ 49
Marketing	50	110	73	94	79	73
MTBE plant	—	96	59	—	—	—
Total	$ 109	$ 287	$ 221	$ 209	$ 161	$ 122

SIX YEAR FINANCIAL AND OPERATING SUMMARY

(stated in millions of dollars, unless otherwise indicated)

	1992	1991	1990	1989	1988	1987
Products Division (continued)						
Marketing						
Petroleum product sales (thousands of cubic metres per day)						
Gasolines	20.6	19.9	19.4	20.1	19.4	20.3
Distillates	14.4	14.2	15.2	15.8	16.1	16.7
Other including petrochemicals	8.0	7.2	8.1	8.5	8.3	8.6
Total	43.0	41.3	42.7	44.4	43.8	45.6
Average sale prices for petroleum products ($ per cubic metre)						
Gasolines	253	275	338	289	290	302
Distillates	222	241	266	226	218	227
Other including petrochemicals	319	361	365	329	301	267
Average of all products	255	278	317	274	266	268
Retail outlets at year end	2 630	3 150	3 205	3 295	3 429	3 677
Refining						
Refinery crude capacity at year end (thousands of cubic metres per day)	57.6	57.6	54.2	54.2	60.6	64.0
Crude oil processed by Petro-Canada (thousands of cubic metres per day)	41.6	41.4	43.6	46.5	48.5	48.4
Average refinery utilization (per cent)[4]	72	74	80	86	77	76
ICG Propane						
Revenue	$ 304	$ 328	$ 362			
Net earnings (loss)	(4)	3	5			
Cash flow from operations	25	35	30			
Expenditures on property, plant and equipment	14	17	16			
Propane sales (millions of litres)	1 215	1 234	1 245			
Capital employed	220	240	259			

[1] *Certain reclassifications have been made to the figures previously reported to reflect subsequent changes in reporting presentation.*

[2] *Share prices are for trading on the Toronto Stock Exchange.*

[3] *Total shares traded on the Toronto, Montreal, Vancouver and Alberta stock exchanges.*

[4] *Average refinery utilization takes into account, where applicable, changes in refinery crude capacity that occurred during the year.*

QUARTERLY FINANCIAL AND STOCK TRADING INFORMATION

(unaudited, stated in millions of dollars unless otherwise indicated)

	1992				1991			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue								
Operating	$ 1 060	$ 1 097	$ 1 185	$ 1 209	$ 1 284	$ 1 147	$ 1 195	$ 1 180
Investment and other income	72	30	24	41	58	22	29	46
	1 132	1 127	1 209	1 250	1 342	1 169	1 224	1 226
Expenses								
Crude oil and product purchases	487	583	646	642	732	637	559	588
Producing, refining and marketing	354	293	324	336	391	396	385	382
General and administrative	61	62	56	62	72	86	72	70
Exploration	12	12	11	21	35	21	23	34
Depreciation, depletion and amortization	102	95	95	99	104	102	97	104
Taxes other than income taxes	14	19	16	18	15	18	17	17
Interest on long-term debt	35	32	29	21	33	31	35	35
Other interest	4	(11)	6	4	27	22	10	10
	1 069	1 085	1 183	1 203	1 409	1 313	1 198	1 240
Unusual Items	—	(66)	(55)	—	(24)	—	(132)	(614)
Earnings (Loss) before Income Taxes	63	(24)	(29)	47	(91)	(144)	(106)	(628)
Provision for (Recovery of) Income Taxes	31	(30)	27	20	(39)	(47)	(21)	(264)
Net Earnings (Loss)	$ 32	$ 6	$ (56)	$ 27	$ (52)	$ (97)	$ (85)	$ (364)
Cash Flow from Operations	$ 124	$ 120	$ 117	$ 156	$ 62	$ 39	$ 105	$ 86
Segmented Net Earnings (Loss)								
Resources	$ 28	$ 61	$ 27	$ 33	$ 14	$ (13)	$ (81)	$ 16
Products	14	(5)	7	14	(80)	(56)	30	(382)
Corporate and Other	(10)	(50)	(90)	(20)	14	(28)	(34)	2
	$ 32	$ 6	$ (56)	$ 27	$ (52)	$ (97)	$ (85)	$ (364)
Share Information (dollars per common share)								
Net earnings (loss)	0.15	0.03	(0.26)	0.12			(0.40)	(1.83)
Cash flow from operations	0.58	0.55	0.54	0.71			0.49	0.40
Dividends	0.0325	0.0325	0.0325	0.0325			0.0325	0.0325
Share price [1,2] – High	10⅞	9¼	10	9½			13⅛	11¼
– Low	8⅛	8¼	7⅞	7⅞			10⅞	9
– Close (end of period)	8¼	8¾	9½	8⅛			11⅛	9½
Shares traded (millions) [2,3]	7.8	5.4	7.2	6.6			16.5	6.9

[1] *Share prices are for trading on the Toronto Stock Exchange.*

[2] *Subsequent to the Initial Public Offering on July 3, 1991.*

[3] *Total shares traded on the Toronto, Montreal, Vancouver and Alberta stock exchanges. In addition to the volume shown for the third and fourth quarters of 1991, 8.9 million shares were traded in June 1991 on an "if, as and when issued" basis.*

Transfer Agent and Registrar

Petro-Canada's transfer agent and registrar is The R-M Trust Company. Share certificates may be transferred at R-M Trust's corporate trust offices in Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver. Questions relating to share certificates, dividends and estate settlements should be directed to R-M Trust's corporate trust offices in Calgary:

The R-M Trust Company
600 The Dome Tower
333 – 7th Avenue S.W.
Calgary, Alberta
Canada T2P 2Z1
Telephone (403) 232-2400

Annual Meeting

The annual meeting of shareholders will be held at 11:00 a.m. local time on Tuesday, May 4, 1993, at:

Jack Singer Concert Hall
Calgary Centre for Performing Arts
205 – 8th Avenue S.E.
Calgary, Alberta

Stock Trading Symbol

PCA

Stock Exchange Listings

Toronto, Montreal, Vancouver, Alberta and Winnipeg.

Dividends

Petro-Canada's Board of Directors has adopted a policy of paying quarterly dividends of $0.0325 ($0.13 per annum) per common share. The Board reviews the policy from time to time in light of the Company's financial position, its financing requirements for growth and other factors. Dividends are normally paid on or about the first working day of the months of January, April, July and October. The record dates are normally set approximately four weeks ahead of the dividend payment date. Petro-Canada does not currently offer an automatic dividend reinvestment service. Dividends can be deposited directly to shareholders' bank accounts. If this service is desired, please contact the transfer agent and registrar, R-M Trust.

Information for Shareholders outside Canada

Dividends and/or interest payments made to residents in countries with which Canada has a bilateral tax treaty are subject to Canadian non-resident withholding tax of 15 per cent. The majority of countries are in this category. There is no Canadian tax on gains from the sale of shares or debt instruments owned by non-residents not carrying on business in Canada. Estate taxes or succession duties are not levied by any level of government in Canada.

Investor Relations and Shareholder Communications

Petro-Canada's Investor Relations staff may be contacted by writing to:

Investor Relations
Petro-Canada
P.O. Box 2844
Calgary, Alberta
Canada, T2P 3E3
Telephone (403) 296-4040
Fax (403) 296-3061

Investor Relations staff will be pleased to respond to shareholders' and investors' comments and can provide upon request:

- additional annual reports and copies of interim reports (interim reports are available about six weeks after the end of each quarter)
- copies of the Annual Information Form (AIF) prepared by Petro-Canada for Canadian securities regulators
- copies of Form 20-F prepared by Petro-Canada for the U.S. Securities and Exchange Commission.

Duplicate Reports

We try to avoid duplicate mailings of annual reports and other shareholder materials, but shareholders with more than one unregistered account may receive duplicates because their names are on different brokers' lists. Registered shareholders with more than one account may contact the transfer agent and registrar to eliminate duplicate mailings.

Investor Relations Information Service (IRIS) (403) 296-IRIS or (403) 296-4747

This on-line information service provides financial reports and other company information in either English or French to individuals with access to a computer and modem. For information on how to use the service, please call (403) 296-4040.

Board of Directors*

A.E. Barroll [1]
Chairman of the Board
Petro-Canada

President
Barroll Resource Consultants Ltd.
Calgary, Alberta

James M. Stanford [2, 3]
President and Chief Executive Officer
Petro-Canada
Calgary, Alberta

H. Reuben Cohen, O.C., Q.C.
Barrister and Solicitor
Moncton, New Brunswick

Gail Cook-Bennett [4]
Executive Vice-President
Bennecon Ltd.
Etobicoke, Ontario

William McBurney Elliott, Q.C. [3]
Counsel
MacPherson, Leslie & Tyerman
Barristers and Solicitors
Regina, Saskatchewan

Claude Fontaine, Q.C. [3,4]
Senior Partner
Ogilvy Renault
Barristers and Solicitors
Town of Mount Royal, Quebec

Wilbert H. Hopper, O.C. [5]
Petro-Canada
Calgary, Alberta

Hon. William H. Jarvis, P.C., Q.C. [3]
Lawyer
McCarthy Tétrault
Ottawa, Ontario

Thomas E. Kierans [4]
President and Chief Executive Officer
C.D. Howe Institute
Toronto, Ontario

Guylaine Saucier, C.M., F.C.A. [1]
Corporate Director
Montreal, Quebec

William W. Siebens [3, 4]
President and Chief Executive Officer
Candor Investments Ltd.
Calgary, Alberta

Senior Officers*

A.E. Barroll
Chairman of the Board

James M. Stanford
President and Chief Executive Officer

Norman F. McIntyre
President
Petro-Canada Resources Division

James Pantelidis
President
Petro-Canada Products Division

Wesley R. Twiss
Senior Vice-President and Chief Financial Officer

Senior executive officers (left to right):
Jim Pantelidis, Norm McIntyre, Jim Stanford, Wesley Twiss

*As of March 10, 1993

[1] *Appointed Chairman of the Board on February 17, 1993*
[2] *Appointed Chief Executive Officer on January 28, 1993*
[3] *Executive Committee member*
[4] *Audit Committee member*
[5] *Served as Chairman and Chief Executive Officer until January 28, 1993*

PETRO-CANADA

To help us improve the value of our annual reporting, please use this postage-paid reply card to provide feedback.

1) How would you rate the amount *of information provided?*

☐ very good ☐ good ☐ could do better ☐ inadequate

2) How clear *is the information?*

☐ very clear ☐ clear ☐ not very clear ☐ confusing

3) How appropriate is the quality *of the presentation (design, paper, etc.)?*

☐ too fancy ☐ appropriate ☐ too plain

4) Did you need any particular information that is missing *or* insufficient *in the report? (Please specify)*

____

____

5) Any other comments about the annual report? ____________

____

Please indicate your interest in Petro-Canada:

☐ Shareholder ☐ Media ☐ Supplier

☐ Academic ☐ Investment community

☐ Customer ☐ Oil industry ☐ Other

If you would like to receive:

☐ a brochure on Petro-Canada's environmental performance

☐ an application for a Petro-Canada credit card

please provide your name and address.

____

____

____

____

MAIL POSTE

Canada Post Corporation / Société canadienne des postes

Postage paid | Port payé
If mailed in Canada | si posté au Canada

Business Reply | Réponse d'affaires

0880226299 01

0880226299-T2P3E3-BR01

Petro-Canada
Public Affairs, 4921 PCCW
PO BOX 2844
CALGARY AB T2P 9Z9

Conversion Factors

To conform with common usage, imperial units of measurement are used in this report to describe exploration and production while metric units are used for refining and marketing. Dollars are Canadian unless otherwise stated.

1 cubic metre (liquids)	=	6.29 barrels
1 cubic metre (natural gas)	=	35.31 cubic feet
1 litre	=	0.22 imperial gallon
1 hectare	=	2.47 acres
1 tonne	=	0.984 ton (long)

Petro-Canada
P.O. Box 2844
Calgary, Alberta
Canada T2P 3E3
Telephone
(403) 296-8000
Fax
(403) 296-3030

Investor and analyst enquiries:
Investor Relations
(403) 296-4040

Media enquiries:
Public Affairs
(403) 296-8472

Publié également en français

Design:
Dave Mason & Associates Inc.

Photography:
Chris Thomas (pp. 5, 8, 56)
Advantage Productions (p. 7)
Richard Bell & Associates (p. 11)

Typography: NovaType Inc.

Printing: H. MacDonald Printing

Printed on paper containing at least 50 per cent recycled fibre, including a minimum of 10 per cent post-consumer waste. Inks are linseed oil based, reducing volatile organic compounds by 50 to 75 per cent.

Printed in Canada

PETRO CANADA

"WE WILL CONTINUE WITH THE STRATEGIES WHICH BROUGHT US SUCCESS IN 1993. WITH OUR STRONG BALANCE SHEET, A MORE CONCENTRATED AND EFFICIENT ASSET BASE, OUR STRENGTH IN NATURAL GAS AND IMPROVING PROFITABILITY, WE ARE IN AN EXCELLENT POSITION AS WE ENTER 1994."

J.M. STANFORD, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF PETRO-CANADA, FEBRUARY 1, 1994

1993 ANNUAL REPORT

HIGHLIGHTS

FINANCIAL (MILLIONS OF DOLLARS, UNLESS OTHERWISE INDICATED)	1993	1992	1991
Net earnings (loss)	162	9	(598)
Earnings (loss) from operations	162	109	(143)
Cash flow from operations	630	517	292
Per common share (dollars)			
Net earnings (loss)	0.66	0.04	(3.08)
Earnings (loss) from operations	0.66	0.50	(0.74)
Cash flow from operations	2.56	2.38	1.50
Dividends (subsequent to July 1991)	0.13	0.13	0.065
Expenditures on property, plant and equipment and exploration	608	456	652
Debt	1052	954	1 649
Debt, net of cash	923	961	1 661
Debt to debt plus equity (per cent)	27.5	26.5	39.8
Return on capital employed (per cent)	4.8	1.5	(8.5)
Cash flow return on capital employed (per cent)	15.3	12.4	7.3
OPERATING			
Crude oil and field natural gas liquids production, net before royalties (thousands of barrels per day)	79.8	79.8	92.5
Natural gas production, net before royalties, excluding injectants (millions of cubic feet per day)	562	507	508
Ethane and natural gas liquids production from straddle plants (thousands of barrels per day)	41	36	34
Proved oil and field natural gas liquids reserves, net before royalties (millions of barrels)	389	417	423
Proved natural gas reserves, net before royalties (trillions of cubic feet)	2.3	2.4	2.7
Refined product sales (thousands of cubic metres per day)	41.3	43.0	41.3
Average refinery utilization (per cent)	79	72	74

PROFILE

PETRO-CANADA IS THE LARGEST CANADIAN-OWNED OIL AND GAS COMPANY AND A LEADER IN THE CANADIAN PETROLEUM INDUSTRY.

THE COMPANY HAS TWO OPERATING DIVISIONS. PETRO-CANADA RESOURCES, THE 'UPSTREAM' BUSINESS, EXPLORES FOR, PRODUCES AND MARKETS CRUDE OIL, NATURAL GAS AND NATURAL GAS LIQUIDS. THE 'DOWNSTREAM' BUSINESS, PETRO-CANADA PRODUCTS, REFINES CRUDE OIL AND DISTRIBUTES AND MARKETS PETROLEUM PRODUCTS.

ESTABLISHED IN 1975 AS A CROWN CORPORATION, PETRO-CANADA WAS PRIVATIZED IN JULY 1991 THROUGH AN INITIAL PUBLIC OFFERING OF COMMON SHARES. IT IS A FULLY COMMERCIAL COMPANY, OPERATING IN THE INTERESTS OF ITS SHAREHOLDERS AND CUSTOMERS.

ABOUT 30 PER CENT OF THE SHARES OF THE CORPORATION ARE HELD BY PUBLIC SHAREHOLDERS. THE BALANCE IS HELD BY THE GOVERNMENT OF CANADA, WHICH HAS EXPRESSED ITS INTENTION TO SELL, OVER TIME, ALL OF ITS SHARES. THE GOVERNMENT HOLDS ITS SHARES AS AN INVESTMENT AND DOES NOT INTERVENE IN THE MANAGEMENT OF THE COMPANY.

THE COMMON SHARES OF THE CORPORATION TRADE ON ALL CANADIAN STOCK EXCHANGES, UNDER THE SYMBOL PCA.

CONTENTS

THE STRATEGIES PETRO-CANADA HAS IMPLEMENTED TO IMPROVE PERFORMANCE ARE DELIVERING STRONG RESULTS, PROVIDING A SOUND BASE FOR FINANCIAL GROWTH. NET EARNINGS GREW TO $162 MILLION IN 1993 FROM JUST $9 MILLION A YEAR EARLIER, WHILE CASH FLOW FROM OPERATIONS ROSE 22 PER CENT TO $630 MILLION. IN 1994, PETRO-CANADA WILL MAINTAIN ITS FOCUS ON ACHIEVING GROWTH IN SHAREHOLDER VALUE, CONTINUING TO BUILD ON THE STRATEGIES WHICH DELIVERED SUCCESS IN 1993.

PETRO-CANADA AT A GLANCE

	BUSINESS DESCRIPTION	STRATEGY IN 1993
CORPORATE ACTIVITIES	■ Determines business and financial strategies ■ Structures the portfolio of businesses for appropriate returns ■ Manages and directs the Company's affairs ■ Provides support services	■ Hold debt to the lower level reached in 1992, maintaining financial strength and flexibility ■ Fund capital investments from cash flow and proceeds from divestitures
RESOURCES DIVISION NATURAL GAS	■ Explores for, produces and markets natural gas ■ Ranks 5th in Canadian gas sales – daily production of 562 million cubic feet is 4% of Canada's total	■ Intensify development of core gas reserves ■ Strengthen marketing capability to gain maximum value from sales
WESTERN CANADA OIL	■ Explores for, produces and markets crude oil ■ Ranks 5th in Canadian oil production with 79 800 barrels daily, about 4% of Canada's total ■ Holds 12% interest in Syncrude oil sands project	■ Maximize and accelerate cash flow through exploitation of core assets ■ Continue to reduce per-unit operating costs ■ Continue to rationalize non-core assets
FRONTIER CANADA AND INTERNATIONAL	■ Develops Canadian offshore petroleum resources, with some international development ■ Owns 30% of the oil discovered off Canada's east coast ■ 25% participant in Hibernia; leads Terra Nova project as operator	■ Continue with development of Hibernia oil field ■ Pursue selected international development opportunities while withdrawing from wildcat exploration
NATURAL GAS LIQUIDS	■ Extracts natural gas liquids, including ethane, propane and butane, from the gas trunk line in a straddle plant at Empress, Alberta ■ Markets natural gas liquids in Canada and the United States	■ Improve reliability of Empress straddle plant
PRODUCTS DIVISION REFINING	■ Converts crude oil into refined products, including gasoline, diesel, jet fuel and asphalt ■ Provides 18% of Canada's refining capacity for domestic markets	■ Complete program to eliminate surplus refining capacity so as to increase efficiency and bring production capacity into balance with marketing needs
MARKETING	■ Markets refined products and services through a nation-wide network of wholesale and retail outlets ■ Canada's second-largest marketer, with a 19% share of the refined products market	■ Continue rationalizing the marketing network ■ Increase throughput per site ■ Build customer loyalty through superior service
LUBRICANTS	■ Manufactures and markets lubricants ■ HydroTreating process yields exceptionally pure basestock	■ Build profitability and sales ■ Continue development of high-value-added specialty products

KEY STATISTICS	1993 HIGHLIGHTS	PLANS FOR 1994
DEBT TO CASH FLOW (TIMES) 91 5.6 92 1.8 93 1.7	■ Held level of debt (net of cash) steady ■ Interest expenses lower by $33 million ■ Funded investments from cash flow and proceeds from divestments	■ Maintain prudent debt levels and manage risks effectively ■ Fund investments internally ■ Sell TroCana Resources
NATURAL GAS PRODUCTION (MILLIONS OF CUBIC FEET PER DAY) 91 508 92 507 93 562	■ Increased production by 11% ■ Added 129 billion cubic feet of new reserves ■ Transferred remaining non-core assets to TroCana Resources, a separate unit which was put up for sale	■ Continue development of proved reserves ■ Increase reserve replacement activity with modest capital expenditures
CONVENTIONAL CRUDE OIL PRODUCTION (THOUSANDS OF BARRELS PER DAY) 91 48.5 92 42.9 93 45.3	■ Increased conventional production by 6% ■ Further reduced costs per unit of production ■ Transferred remaining non-core assets to TroCana Resources	■ Continue to optimize core properties ■ Seek opportunities to divest a further portion of Syncrude while securing appropriate value
INVESTMENT IN DEVELOPMENT OF HIBERNIA (NET OF GRANTS) 1993 $165 million 1994 $210 million (planned)	■ Completed base slab for Hibernia structure and began fabricating topsides modules ■ Increased working interest in Terra Nova oil field on the Grand Banks ■ Reached agreement for development and exploration program in Algeria	■ Invest $210 million in Hibernia construction, while seeking opportunities to divest a minority interest for appropriate value ■ Make progress toward development of Terra Nova ■ Begin drilling in Algeria
STRADDLE PLANT NGL PRODUCTION (THOUSANDS OF BARRELS PER DAY) 91 34.0 92 36.4 93 40.8	■ Completed replacement of two main turbines at Empress ■ Increased straddle plant production by 12%	■ Implement plan to fully integrate all NGL operations, including ICG Propane, in a single business unit
AVERAGE REFINERY UTILIZATION (PER CENT) 91 74 92 72 93 79	■ Closed crude oil processing units at Port Moody, B.C., and Mississauga, Ont., cutting capacity by 12 500 cubic metres a day ■ Raised utilization from 72% in 1992 to 83% in the last quarter of 1993	■ Improve operating and management processes to increase profitability ■ Increase utilization to 90%
AVERAGE THROUGHPUT PER RETAIL SITE (MILLIONS OF LITRES) 91 1.7 92 1.9 93 2.2	■ Retained most retail gasoline volumes despite closing another 420 outlets ■ Trimmed to 255 wholesale operations ■ Implemented service strategy, retraining about 20% of retail personnel by year end	■ Continue retail and wholesale rationalization ■ Extend superior service training to most of the network ■ Pursue revenue enhancements at each site
LUBRICANT SALES (MILLIONS OF LITRES) 91 286 92 342 93 407	■ Record levels of production and sales ■ Achieved ISO international quality certification	■ Further increase production and sales ■ Gain efficiencies through implementing integrated business system

Early in the year, your Board of Directors decided, in the interest of the Company and its shareholders, to separate the roles of Chairman of the Board and Chief Executive Officer. I was honoured with an invitation to assume the position of Chairman, and I accepted with determination to work with the Chief Executive Officer to enhance the relationship between the Board and management.

During the past year, the Board systematically reviewed its role in corporate governance. We conducted an extensive review of our duties and responsibilities, our committee structure and our requirements for information and reports from management. We documented and implemented new processes to enhance the effectiveness of our meetings and our relationship with management in the conduct of Company business. Jim Stanford's major contributions in engendering this relationship with management are deserving of the Board's recognition and appreciation.

We reviewed and revised, where appropriate, the terms of reference of all Board committees. We concluded it would be useful to create two new Board committees – a Finance Committee and a Corporate Standards and Conduct Review Committee – in addition to the existing Audit Committee, Executive Committee, Management Resources and Compensation Committee, Nominating Committee and Pension Committee.

All these committees met regularly during the year, as required, and played an important role in discharging the Board's responsibilities.

We also identified a need to improve our ability, as a Board, to oversee the Company's diligence on environment, health and safety issues. Shareholders across North America are increasingly concerned about corporate performance in these areas, both from an ethical perspective and with regard to potential exposure to liability and costs.

To ensure effective, proactive management of these complex issues within the Company, the Board directed the creation of an Environment, Health and Safety Committee, chaired by the President and Chief Executive Officer, and including the divisional presidents, the vice-presidents responsible for law, public and government affairs, finance and human resources and the senior director of environment, health and safety. The Board of Directors regularly reviews the work of this committee, which makes formal presentations to the Board each quarter.

I should like to acknowledge the contribution of all Board members to our corporate governance initiatives, and to express appreciation for their support and wisdom during the past year. In particular, I want to thank Bill Jarvis and Patrick Keenan, who are not standing for re-election, for their significant contributions to the Company during their terms as directors.

On behalf of the Board of Directors, I wish to congratulate Jim Stanford, his management team and all the employees of Petro-Canada for their outstanding performance during 1993.

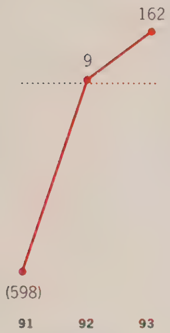
A.E. Barroll

A.E. BARROLL
Chairman of the Board

As I begin my second year as Chief Executive Officer, I am happy to be able to report greatly improved financial results for Petro-Canada in 1993. We have successfully implemented a set of strategies to enhance our financial performance and position Petro-Canada for growth in the years ahead. Those strategies are now delivering strong results, and the market value of our Company has grown accordingly, by nearly a billion dollars over the year.

Earnings and cash flow grew substantially. Net earnings were $162 million, up from $9 million in 1992. Cash flow rose 22 per cent, to $630 million.

To achieve these positive results, we have restructured our business to focus on our best assets while diligently controlling our costs and our debt.



NET EARNINGS
(MILLIONS OF DOLLARS)

STRONG COMPETITIVE POSITION Petro-Canada's cash flow return on capital employed led the integrated oil companies at 15.3 per cent, compared to an average for the other three Canadian integrateds of 11.6 per cent. We achieved a 4.8 per cent return on capital employed, while our peers averaged 3.6 per cent. The industry generally reported better results, in part due to some improvement in the business environment, particularly in downstream margins and natural gas prices. We still have some distance to go before we can generate a level of results that would be truly satisfying to our shareholders, but I believe Petro-Canada is moving steadily forward along the right path.

RATIONALIZATION ESSENTIALLY COMPLETE We have divested most of our non-core oil and gas properties and are now concentrating on a much smaller number of assets where we have substantial working interests and opportunities to build value. Remaining non-core upstream properties were assigned to a separate unit, TroCana Resources, and in February 1994 we reached agreement to sell TroCana. We completed the reconfiguration of our refineries during 1993, eliminating our surplus capacity, and we neared completion of a marketing rationalization which is seeing us shed the least profitable third of our network.

CASH FLOW
FROM OPERATIONS
(MILLIONS OF DOLLARS)

EFFECTIVE COST AND DEBT MANAGEMENT Our emphasis on cost management continued, as we maintained the reductions achieved in 1992. Overhead costs continued to decline, as did feedstock, refining and marketing expenses, and per-unit upstream producing costs. Interest expenses were down by $33 million.

Total debt rose, though debt net of cash balances declined despite our investment of $165 million in Hibernia during 1993. Determined to live within our means, we held our 1993 capital expenditures within the level of our cash flow. We plan to do the same in 1994.

SHARE PRICE HAS RECOVERED In the early part of 1993, Petro-Canada's shares were substantially undervalued in the stock market. I placed high priority during the year on meeting with investors and analysts to demonstrate the underlying value of Petro-Canada, while implementing our plan to strengthen financial performance. The recovery in our share price from the lows of early 1993 was an important vote of confidence in our future.

However, the value of our stock is affected by the retention of 70 per cent of our shares by the Federal Government. Our Board and management continue to strongly support the Government in its stated intent to divest its shares.

Petro-Canada's Executive Leadership Team (left to right): Wesley Twiss, Jim Pantelidis, Jim Stanford, Norm McIntyre, Roy Legge

LOOKING TO CHOSEN BUSINESSES FOR GROWTH We are moving forward toward a Petro-Canada that will be a more efficient and profitable competitor in the businesses we have chosen.

In Western Canada, our greatest growth will be in natural gas. Right now, we are working to bring on stream the substantial gas reserves – some 600 billion cubic feet – which we have already discovered but have not yet developed. Over the next few years we will broaden our approach, moving out from our core properties with development and exploration drilling to find new reserves. While gas is our priority for growth in Western Canada, we will selectively invest in our oil and natural gas liquids businesses where we see opportunities to create value.

We look to the Grand Banks off Canada's East Coast as our primary opportunity for new crude oil production. Development of the Hibernia oil field is advancing, with the first oil production scheduled for 1997. Petro-Canada operates the Terra Nova oil field, which we expect will be the next offshore development following Hibernia. Petro-Canada owns some 30 per cent of the 1.6 billion barrels of oil that have already been discovered on the Grand Banks – a portfolio of opportunity that is unmatched in the Canadian industry.

In refining and marketing, we have rationalized faster and deeper than any of our competitors. We have permanently cut our excess capacity and our cost structure. Our focus now is on refining process improvements and a service vision that will enlarge our customer base. We are confident that we can compete profitably today and in the years ahead.

ALIGNING EMPLOYEES' EFFORTS WITH OBJECTIVES Our employees have made an enormous contribution to the Company's success through their energy and innovation. We have now taken further steps to effectively align employees' efforts with the business objectives of the Company. For senior management, a significant portion of compensation is now at risk. It is paid only if agreed performance measures are reached or surpassed. Other employees now participate in a similar plan, introduced in 1993, which enables groups to earn additional compensation by exceeding defined performance thresholds. Our employees work hard. Now, these programs will increasingly focus their efforts directly on the key factors which can build profitability for Petro-Canada.

GROWING CONFIDENCE I would like to thank our employees, my management team, our Board of Directors and our shareholders for their support during my first year as Chief Executive Officer. We enter 1994 with a solid track record of improving results. Our strategies position us to sustain performance even with market volatility. We accept the conditions of our industry, and are determined to manage the business to deliver acceptable results no matter what the business environment. We will continue to pursue the strategies which brought success in 1993, with growing confidence in our future.

JAMES M. STANFORD
President and Chief Executive Officer

PROGRESS IN ATTAINING OBJECTIVES

The Company substantially achieved its objectives for 1993 as set out in the 1992 Annual Report.

OBJECTIVE	1993 ACHIEVEMENTS
Continue to improve financial results, with particular emphasis on cost control and debt management	■ Improved net earnings by $153 million ■ Increased cash flow from operations by $113 million ■ Maintained appropriate debt level ■ Held costs to lower level attained in 1992
Further balance the portfolio to increase short- and medium-term cash flow while maintaining longer-term growth opportunities	■ Completed consolidation of conventional upstream activities to 150 producing entities in 26 strategic areas ■ Grouped remaining non-core upstream assets into a separate unit – TroCana Resources – and put it up for sale ■ Completed refinery capacity reduction program ■ Neared completion of retail rationalization
Fund investments from cash flow and proceeds from divestitures	■ Total capital and exploration expenditures of $629 million were less than cash flow of $630 million
Maintain financial strength and flexibility	■ Strength was recognized in improved market valuation and credit ratings ■ Ratio of debt to cash flow improved to 1.7 from 1.8 ■ Maintained the debt to debt plus equity ratio within target range at 27.5 per cent

OBJECTIVES FOR 1994

The Company has set the following objectives for 1994:

- Continue to focus on improving financial results, with a medium-term objective of achieving returns that meet or exceed the cost of capital.
- Pursue the best opportunities to build profitability and value from the Company's asset base
  - enhance the profitability of refined product sales in a smaller, more efficient refining and marketing network
  - target growth through development of core Western Canada natural gas resources and the Hibernia and Terra Nova offshore oil fields
- Continue to rebalance the asset base to provide a strong mix of shorter- and longer-term cash flow growth opportunities
- Fund investments from cash flow from operations
- Maintain financial strength and flexibility, ensuring the Company's ability to weather periods of low and volatile commodity prices

"THE CURRENT MANAGEMENT TEAM IS GAINING A SOLID REPUTATION FOR ITS STRICT FOCUS ON COST CONTROLS, AND, OF ALL THE INTEGRATED OIL COMPANIES, PETRO-CANADA HAS THE GREATEST PROSPECTS FOR GENERATING INTERNAL GROWTH OVER THE NEXT FIVE YEARS."

DUNCAN MATHIESON, CFA, INVESTMENT RESEARCH, WOOD GUNDY INC., SEPTEMBER 28, 1993

STRATEGIES

The Resources division's strategy is to select a superior portfolio of upstream businesses for long-term growth while optimizing the performance of those businesses which presently contribute cash.

Natural gas in Western Canada provides strong cash flow and solid potential for future growth. We are focusing on increasing production from our gas fields and bringing our large proved but undeveloped reserves onto production. We will pursue reserve additions through low-risk exploration in and near our core operating areas, selective acquisitions and some higher-risk exploration through farmouts of our extensive land base.

East Coast offshore oil, beginning with the Hibernia and Terra Nova oil fields, is our key area for future oil growth because of our large discovered reserves. In our Western Canada oil business, we aim to accelerate and maximize cash flow, investing in only the most profitable opportunities.

Our natural gas liquids business has been a reliable source of cash flow. We are integrating the management of all NGL activities, including those of ICG Propane, into a single business unit to capture all available synergies and efficiencies.

Internationally, we are pursuing highly selective development prospects with potential for early cash flow. In oil sands, we will retain some attractive leases and an interest in Syncrude to stay involved in the business and retain access to technology, but we do not intend to grow in oil sands in the near or medium term.

In focusing on these strategies, we have significantly reduced per-unit operating and overhead costs. The improvements we have achieved are due in large part to the initiative and commitment of our employees. By improving work processes and developing core competencies, we aim to maximize the contribution of our employees to the division's success.

NORM McINTYRE
President,
Petro-Canada Resources

ACTIVE DRILLING TARGETS UNDEVELOPED RESERVES Capital expenditures on conventional exploration and development in Western Canada were $161 million, double the spending in 1992. The primary target was reserves that had been proved but not yet developed. Petro-Canada was the fourth most active driller in Western Canada in 1993, participating in 383 conventional wells. These included 164 oil (99 net) and 196 gas (87 net) wells, for an overall success rate of 94 per cent.

This exploitation program moved 12.7 million barrels of oil and liquids plus 91 billion cubic feet of natural gas from proved undeveloped to proved developed reserves. In addition, discoveries and extensions added new proved reserves of 9.4 million barrels of oil and liquids and 129 billion cubic feet of natural gas, equivalent to 45 per cent of 1993 production for oil and liquids and 63 per cent for gas.

NATURAL GAS SALES HIGH IN OPPORTUNITY-RICH MARKET The market fundamentals for natural gas improved in 1993. Demand grew and prices rose sharply as the balance between supply and demand improved. Petro-Canada's sales volumes increased 11 per cent to 562 million cubic feet per day, achieving a reserve life index of 11 years. New trading capabilities enable the Company to benefit from the recent shift toward shorter-term contracts based on spot prices. About 80 per cent of Petro-Canada's production will be sold for higher prices in 1994.

Responding to market demand for gas, the Company increased production, largely through infill drilling and by adding compression and debottlenecking at processing plants. Horizontal drilling, which Petro-Canada applied for the first time to gas fields, increased the deliverability of long-life reserves at Jedney, while use of three-dimensional seismic helped raise success rates. Among the largest reserve additions were at Gilby (41 billion cubic feet), Fireweed (13 billion cubic feet) and Jedney (7 billion cubic feet). Positive revisions due to higher year-end prices were offset by net asset sales and other revisions. Natural gas reserves at year-end were 2.3 trillion cubic feet, down four per cent from 1992.

RESOURCES DIVISION KEY RESULTS	1993	1992	1991
FINANCIAL (MILLIONS OF DOLLARS)			
Earnings (loss)			
From operations	125	149 [1]	31
Writedown of investment in Syncrude	—	—	(95)
	125	149	(64)
Cash flow from operations	355	366	303
OPERATING			
Crude oil and field natural gas liquids production, net before royalties (thousands of barrels per day)	79.8	79.8	92.5
Natural gas production, net before royalties, excluding injectants (millions of cubic feet per day)	562	507	508
Ethane and natural gas liquids production from straddle plants (thousands of barrels per day)	41	36	34

[1] *1992 results benefitted from a $22 million after-tax reduction in operating costs relating to Wolf lake, a $21 million income tax adjustment and $24 million in gains on asset sales. (Results in 1993 include only $1 million in gains.)*

In 1994, Petro-Canada will push forward with exploitation of its untapped gas reserves and will add compression at several facilities to increase production.

OIL PRODUCTION ENHANCED Development work raised production of conventional crude oil by 2 400 barrels per day or six per cent. Total oil and liquids volumes averaged 79 800 barrels per day, the same as in 1992, as conventional volume gains were offset by lower synthetic crude volumes from the Company's reduced interest in Syncrude.

Application of technology is the key to boosting production. A waterflood at Valhalla, on properties acquired in 1992, boosted production by 21 per cent to 6 250 barrels per day. At Bellshill, 3-D seismic was used to precisely target infill wells, reversing a decline and raising production by 19 per cent to 7 470 barrels per day. Horizontal drilling at Cactus Lake increased production by 46 per cent to 1 710 barrels per day, while a single horizontal re-entry well at Brazeau now yields 500 barrels per day. Testing the limits of technology can bring disappointments, too. The waterflood at Golden Lake is not yielding the expected strong production increase, and a technical re-evaluation is under way.

Right: Natural gas marketers Roger Carry and Lydia Sloan react quickly to market opportunities to increase profits from natural gas sales.

AVERAGE ALBERTA SPOT NATURAL GAS PRICE AT EMPRESS
(DOLLARS PER THOUSAND CUBIC FEET)

A NATURAL GAS MARKETING ROOM, OPENED LATE IN 1993, SYMBOLIZES PETRO-CANADA'S DETERMINATION TO PROFIT FROM HIGHER PRICES IN THE RAPIDLY EXPANDING COMMODITY MARKET FOR NATURAL GAS.

CONSTRUCTION IS ADVANCING ON THE HIBERNIA OFFSHORE OIL DEVELOPMENT. THE EAST COAST WILL BE A PRIMARY SOURCE OF RESERVE ADDITIONS IN FUTURE YEARS.

A limited exploration program through a joint exploration company, using 3-D seismic, added reserves of 1.3 million barrels in the Peace River Arch area in northern Alberta.

Total oil and liquids reserves at year-end were 388.6 million barrels, down seven per cent from 1992. About half of the reduction reflects the effect of the lower oil price at the end of 1993 on estimates of economically recoverable reserves.

Production optimization through application of technology will continue in 1994. Further joint exploration will capitalize on Petro-Canada's extensive land base and technological expertise with minimal capital expenditure.

ASSET RATIONALIZATION NEARS COMPLETION The Resources division has largely completed its multi-year program of rationalizing assets so it can focus capital and human resources on core properties. Following the divestitures of recent years, the division assigned its remaining non-core properties to an autonomous business unit, TroCana Resources. An agreement to sell TroCana was reached in February 1994.

TroCana's year-end volumes, 6 300 barrels of oil and liquids and 44 million cubic feet of gas daily, were about eight per cent of Petro-Canada's total oil and gas production. The Company intends to offset the reduction through further development of core assets and selective acquisitions in core areas.

Petro-Canada has trimmed down from more than 500 producing entities to about 150 core entities in 26 strategic areas. It holds significant working interests in these properties and will act on opportunities to further add value and highgrade the portfolio. To improve the balance of its portfolio, Petro-Canada would like to divest a further portion of its Syncrude interest and a minority portion of its Hibernia interest if appropriate value can be obtained.

FURTHER COST REDUCTIONS ACHIEVED The Resources division continues to drive ongoing per-unit costs of production downwards. The division has trimmed $1.13 per barrel of oil equivalent from its ongoing costs in conventional operations since 1991, including a 36 cent/BOE reduction in 1993, through efficiency measures and overhead cost reductions.

Left: Work in progress on the Hibernia gravity base structure at Bull Arm, Newfoundland.

Graph data based on Petro-Canada interests at year-end 1993, the Hibernia reserves estimates developed by participants, and Canada – Newfoundland Offshore Petroleum Board estimates of Terra Nova reserves.

HIBERNIA CONSTRUCTION ADVANCES Construction continued on the production system for the Hibernia oil field off Newfoundland. Petro-Canada owns 25 per cent of the field, which will reach peak production of 125 000 barrels a day by the end of the decade.

By year-end, the base slab for the production platform was complete, and fabrication was under way on all of the topsides facility modules. Production from Hibernia is scheduled to commence in 1997, although construction of the production facilities currently is behind schedule. In 1994, the base will be floated out of the dry dock for completion at an inshore deep-water site.

TERRA NOVA POSITIONED FOR EARLY DEVELOPMENT Petro-Canada and its co-owners in the Terra Nova oil field are evaluating options which could advance the development of the field, some 35 kilometres southeast of Hibernia.

In July, Petro-Canada increased its interest in Terra Nova to about 49 per cent (pending unitization) through an asset swap, acquiring interests in Terra Nova and other Grand Banks properties in exchange for portions of its interests in six gas fields off Nova Scotia. The Company retains a significant position in Nova Scotia gas fields, and, with partners, will continue to evaluate development opportunities.

INTERNATIONAL FOCUS ON ALGERIA International activity in 1993 centred on Algeria, where Petro-Canada signed an agreement with the Algerian national oil company. The agreement covers exploration in a known oil-producing region of southeastern Algeria, and also allows Petro-Canada to re-evaluate and develop existing oil and gas discoveries. Technical evaluation has been encouraging, and Petro-Canada expects to begin drilling in 1994.

The Company has suspended work on an opportunity in Russia, as the technical results did not justify proceeding given the business uncertainties in that country. The exploration program in Vietnam was completed during 1993 without commercial discoveries, and the Company sold its interest in a small discovery in Colombia. International activity will continue to focus on Algeria in 1994.

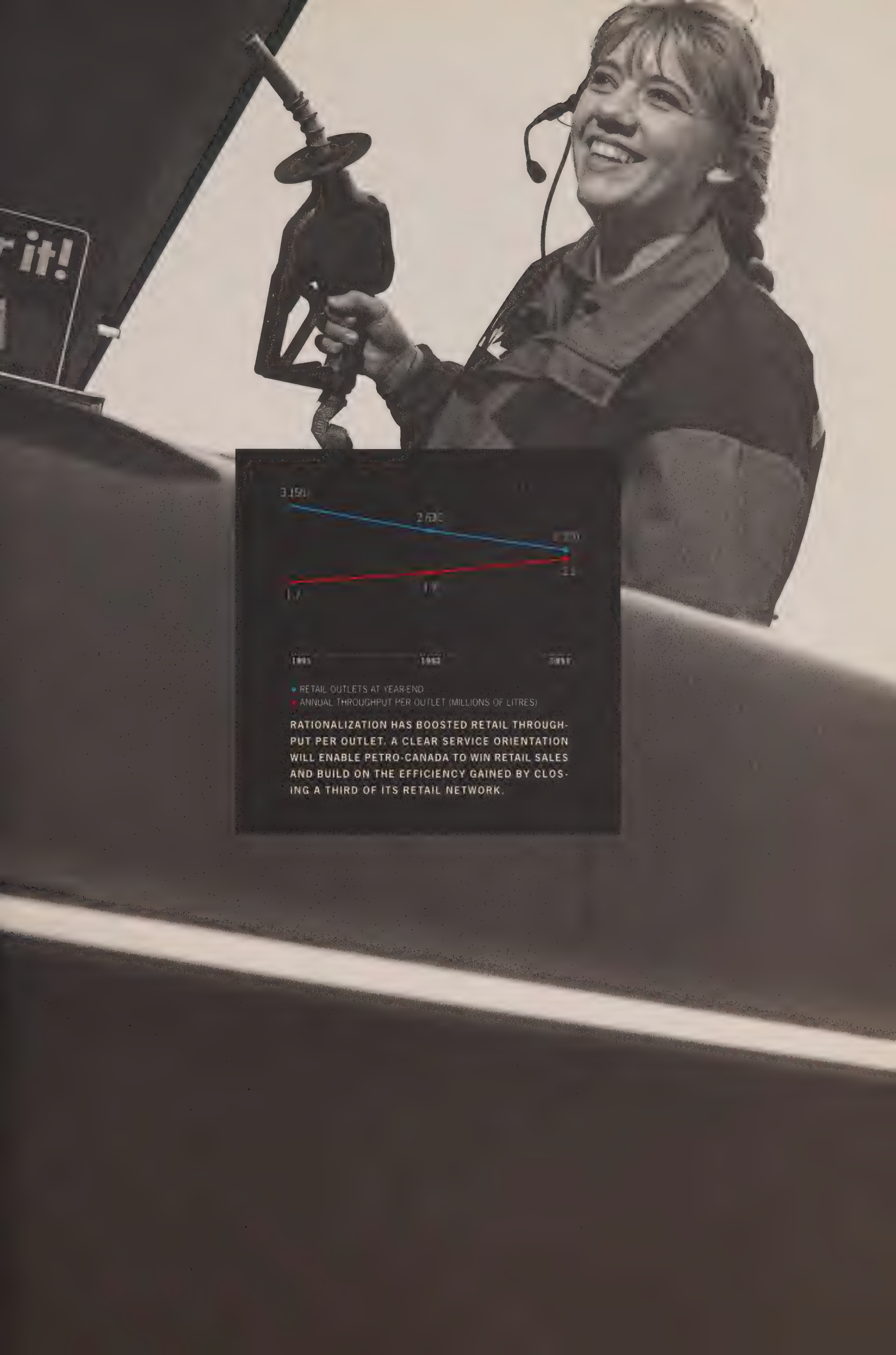
INTEGRATING THE NATURAL GAS LIQUIDS BUSINESS Late in 1993, Petro-Canada decided to integrate the management of all its natural gas liquids activities into a single business unit within the Resources division. These include a straddle plant at Empress, Alberta; NGL marketing; some propane marketing formerly handled by the Products division; and the propane distribution and marketing network of ICG Propane. The Company expects to gain efficiencies and capitalize on synergies between upstream and downstream operations through the integration. Propane will continue to be marketed through the ICG Propane network under the ICG trademark.

Straddle plant NGL production increased by 12 per cent in 1993 as a result of the higher volumes of gas processed and the replacement of turbines at Empress.

ICG PROPANE Integration of ICG Propane operations into the Resources division's natural gas liquids business began late in the year, but ICG Propane was managed as a separate investment and was part of the Corporate and Other segment for all of 1993.

Total propane sales held steady in 1993 at 1.2 billion litres.

Right: Brenda Turner and other guest service attendants aim to win repeat business by delivering consistently superior service.



RATIONALIZATION HAS BOOSTED RETAIL THROUGHPUT PER OUTLET. A CLEAR SERVICE ORIENTATION WILL ENABLE PETRO-CANADA TO WIN RETAIL SALES AND BUILD ON THE EFFICIENCY GAINED BY CLOSING A THIRD OF ITS RETAIL NETWORK.

● REFINING CAPACITY AT YEAR END ● AVERAGE PRODUCT SALES
(THOUSANDS OF CUBIC METRES PER DAY)

PETRO-CANADA HAS BALANCED REFINING CAPACITY WITH MARKETING NEEDS BY ELIMINATING 12 500 CUBIC METRES PER DAY OF EXCESS REFINING CAPACITY. THE REFINERIES SHOULD AVERAGE ABOUT 90% UTILIZATION IN 1994.

STRATEGIES

Our vision in the Products division is to be a profitable service organization that attracts customers and, through superior service, turns them into repeat customers. Success will translate into profits and added value for the Company and its shareholders.

Since 1991, we have radically transformed our organization and assets to achieve this vision, through a set of linked strategies.

One thrust was rationalization. Overcapacity in the refining and marketing business kept fixed costs high, held margins down and eroded profitability. We have now eliminated our own surplus refining capacity and have nearly completed divesting about one third of our marketing network.

At the same time, we have sharply improved our competitiveness by driving down operating and overhead costs and reducing staff.

Building on these steps, we are positioned to gain a competitive advantage in refining through process improvement and our capacity for handling low-cost crudes, and in marketing through consistent delivery of superior service.

Implementing these strategies required tough decisions and hard work by all of our employees, but it has resulted in a decisive performance turnaround for the Products division.

JIM PANTELIDIS
President,
Petro-Canada Products

Left: Operations personnel John Chisholm and Paul Sacco were part of the reconfiguration team at Lake Ontario refinery.

REFINERIES RUNNING NEAR FULL CAPACITY Petro-Canada's three refineries are expected to run at about 90 per cent utilization in 1994, following completion, late in 1993, of a program to eliminate 12 500 cubic metres a day of surplus capacity.

This program brought the Company's refining capacity into balance with the needs of its marketing network, enabling the refineries to run more efficiently. Reconfiguration was achieved in just two years, on time and on budget.

Refining units at Port Moody, British Columbia, were taken out of service in April. The Port Moody plant and nearby distribution terminal have been transformed into the Burrard receipt and handling facility, which in August began receiving refined products shipped by pipeline from the Edmonton refinery.

PRODUCTS DIVISION KEY RESULTS	1993	1992	1991
FINANCIAL (MILLIONS OF DOLLARS)			
Earnings (loss)			
From operations	115	30	(109)
Restructure and reorganization	—	—	(379)
	115	30	(488)
Cash flow from operations	291	200	15
OPERATING			
Petroleum product sales (thousands of cubic metres per day)	41.3	43.0	41.3
Average refinery utilization (per cent)	79	72	74

At the Lake Ontario refinery, crude and fuel products units at Mississauga were permanently shut down in November, allowing higher utilization at Oakville. Mississauga now produces high-quality lubricants and asphalts, using feedstocks from Oakville.

In 1994, all refineries will focus on enhancing reliability and safety and gaining cost efficiencies through improved operating and business processes.

EXCELLENT PROGRESS IN NETWORK RATIONALIZATION In the third year of its rationalization program, Petro-Canada closed 420 retail outlets in 1993, ending the year with 2 220 outlets compared to 3 150 in 1991. More low-profitability outlets will close in 1994. Despite shrinking its network by 30 per cent since 1991, the Company has retained most of its sales volume, especially in the higher-margin retail gasoline market. The wholesale network has been trimmed by 25 per cent since 1991, to 255 operations.

DRIVE TO SERVICE ORIENTATION YIELDING RESULTS The Products division aims to attract and retain customers by consistently offering superior service.

About 20 per cent of retail associates and guest service attendants graduated from intensive team service training during the year and symbolically "reopened" their outlets with a new service commitment. Training emphasizes service leadership by associates and superior front-line service delivery by guest service attendants. A similar focus on a service orientation is being implemented in wholesale marketing.

RETAIL THROUGHPUT RISES Product sales per retail outlet rose sharply in 1993, averaging 2.2 million litres, up from 1.9 in 1992 and 1.7 in 1991. Petro-Canada will continue to drive for higher throughput, while seeking enhanced revenue through aggressive merchandising.

CONTINUED SUCCESS IN COST REDUCTION Petro-Canada's expenses for crude oil purchases were significantly lower in 1993. Taking advantage of the flexibility of its refineries, the division processed more lower-cost crudes, and also benefitted from generally lower world crude prices in the second half of the year. The division also cut operating and overhead costs by an additional $16 million. Working capital committed to Products operations was trimmed by a further $33 million, for a total $137 million reduction over two years. Further efficiencies are expected in 1994 through integration of product distribution and wholesale marketing activities.

LUBRICANTS HITS SALES RECORD Petro-Canada achieved record volumes in 1993 for both production and sales of lubricants, with sales of 407 million litres. In 1993, Petro-Canada became the first Canadian company to achieve ISO 9001 certification for lubricants manufacturing from the International Standards Organization, recognizing excellence and quality assurance. The business unit continues to develop new value-added products based on its exceptionally pure basestock for domestic and export markets.

Petro-Canada endeavours to meet its responsibilities to all its stakeholders, including its customers, the communities in which it operates, its employees and business associates, and indeed all Canadians. Achieving high standards in health and safety, environmental management, maintenance and loss prevention is essential for business success in the nineties.

ACTIVE STEWARDSHIP The Company has established an Environment, Health and Safety Committee of senior officers, chaired by the President, which reports to the Board quarterly. Top management scrutiny reinforces the Company's commitment to ensuring it meets high standards in environmental protection, health and safety. Both divisions set performance targets and have clearly defined responsibilities from senior managers to line operators.

VAPOUR RECOVERY EXTENDED TO ONTARIO Petro-Canada is extending to southern Ontario a program it successfully implemented in the Lower Mainland of British Columbia to trap and recover gasoline vapours from distribution terminals and fuel delivery trucks.

EMERGENCY RESPONSE TESTED Through planning and training, Petro-Canada is continuously improving its ability to respond to major emergencies, including accidents that could threaten the environment. In 1993, the Company conducted a full-scale exercise to test its ability to deal with a major marine spill. To heighten response capability, Petro-Canada participates in 89 local, regional and international spill response cooperatives.

ACHIEVEMENTS RECOGNIZED Petro-Canada received a Bronze Award for environmental reporting in the *Financial Post* annual reports competition. Petro-Canada Centre's environment-friendly office program was recognized by the Building Owners and Managers Association of Calgary with its 1993 Environment Award.

Employee volunteer Cheryl Dodd plants a tree at the Inglewood refinery site.

WILDLANDS PARK PROGRESSING Petro-Canada is working with the City of Calgary, the Rotary Club and community groups to turn a former refinery site into a unique natural park. Community and employee volunteers planted some 7 900 trees and shrubs in 1993.

RESTORING DISUSED SITES Today's practices are designed to minimize environmental impact, but Petro-Canada is also actively restoring sites contaminated in past years. The 1993 site restoration expenditures of approximately $45 million were previously provided for, and Petro-Canada provides on a continuing basis for future site restoration costs.

SUPPORTING CANADIAN COMMUNITIES In 1993, Petro-Canada supported some 500 charitable organizations throughout Canada with contributions of about $2.0 million.

Petro-Canada is a founding member of the Alberta Ecotrust Foundation, an innovative partnership of corporations and environmental groups. In 1993, Ecotrust approved $285 000 of funding for community-initiated environmental projects.

In partnership with the Canadian Olympic Association, Petro-Canada continues to support amateur athletes and coaches pursuing higher education. More than $1 million has been awarded in Petro-Canada Olympic Torch Scholarships since 1988.

A RESPONSIVE EMPLOYER In 1993, Petro-Canada won one of three merit awards presented by the Federal Contractors' Program for advancing equality in employment for women, aboriginals, persons with disabilities and visible minorities.

Employee teams are developing ways to enable all members of Petro-Canada's diverse workforce to contribute fully and enjoy satisfaction from their work. Flexible hours, benefits options, job sharing, a day care centre at head office, child and elder care information and a new parental leave policy are some of the ways Petro-Canada accommodates its employees' varied needs.

Petro-Canada maintains a smoke-free workplace, provides fitness facilities, offers counselling for employees, and follows safe work practices at all its sites. A managed rehabilitation care program to help employees return to work following illness or injury has been instrumental in reducing the incidence of employees on long-term disability leave to 25 per cent below the insurer's average for major companies.

CODE OF BUSINESS CONDUCT STRENGTHENED With the assistance of organizations such as the Task Force on the Churches and Corporate Responsibility, the Company has revised and strengthened its code of business conduct, a guide for employees on ethical standards. Copies are available on request (see inside back cover).

MANAGING RISKS AND CONTROLLING LOSSES Petro-Canada continues to improve its loss management systems to prevent and reduce the risk of loss due to accidents and operational upsets. Environment, health, safety, reliability and loss prevention, managed under a Total Loss Management framework, form an integral part of key business processes.

Facilities, operations and management systems are regularly audited to identify and correct any deficiencies in environmental protection, health, safety, reliability or risk management. The integrated approach provides a comprehensive and efficient tool for business improvement and incident prevention.

"THE UNTHINKABLE IS HAPPENING: NEW CEO JAMES STANFORD IS TRANSFORMING PETRO-CANADA, THE DEBT-BURDENED NEMESIS OF OIL PATCH FREE TRADERS, INTO ONE OF BIG OIL'S BEST-RUN PLAYERS."

JAMES FLEMING, GLOBE AND MAIL REPORT ON BUSINESS MAGAZINE, FEBRUARY 1994

This year, Management's Discussion and Analysis is printed as a separate document, which is included in the mailing to shareholders and is also available to any user on request (see inside back cover). The shorter Financial Review presented here describes the reasons for Petro-Canada's improved financial performance and management's view of the Company's outlook for the future.

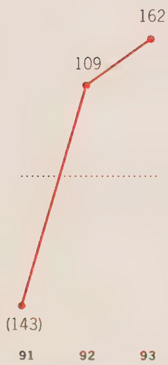
STRATEGIES

Petro-Canada's financial strategies and performance targets reflect management's continuing focus on improving the Company's results. Specifically, we have set a medium-term objective of achieving financial returns that meet and then exceed our cost of capital – which is equivalent to a return on capital employed of 10.5 per cent or better. We have some distance to go in reaching this objective, but we have already made significant progress. We have comprehensive plans in place to close the remaining gap.

Over the past two years, we have substantially completed the restructuring of our asset base to provide a mix of shorter- and longer- term cash flow growth opportunities. We have realized large reductions in operating, overhead and interest costs, and will continue to manage costs diligently. We have sharply reduced our level of debt to provide a strong balance sheet.

As we go forward, Petro-Canada's management is committed to maintaining the Company's financial strength and flexibility, even in periods of low or volatile commodity prices. We intend to keep our debt to cash flow below two times, and our debt to debt plus equity ratio within a range of 20 to 30 per cent. In the near term, we will continue to fund investments from internally generated cash flow.

WESLEY TWISS
Senior Vice-President and
Chief Financial Officer



EARNINGS FROM OPERATIONS INCREASED $53 MILLION
(MILLIONS OF DOLLARS)

SHARPLY IMPROVED FINANCIAL RESULTS Petro-Canada delivered significantly improved financial results in 1993, reflecting the successful implementation of its strategies for enhancing performance as well as some improvement in market conditions for natural gas and refined products.

Earnings from operations were $162 million (66 cents per share), up from $109 million (50 cents per share) in 1992. Unusual charges totalling $100 million reduced net earnings to $9 million (4 cents per share) in 1992, while there were no unusual items in 1993. Cash flow from operations rose $113 million in 1993 to reach $630 million ($2.56 per share).

Key factors in the improved results were higher refining and marketing margins, higher natural gas prices and production volumes, the net benefit from hedging, reduced interest expense and lower per-unit conventional producing costs.

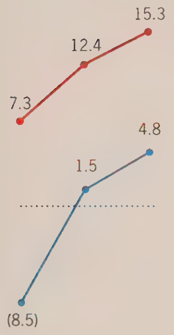
KEY FINANCIAL RESULTS	1993	1992	1991	CHANGE (1993 vs. 1992)
CONSOLIDATED (MILLIONS OF DOLLARS, UNLESS OTHERWISE INDICATED)				
Earnings (loss) from operations	162	109	(143)	+53
Unusual items	–	(100)	(455)	+100
Net earnings (loss)	162	9	(598)	+153
Per share ($)	0.66	0.04	(3.08)	+0.62
Cash flow from operations	630	517	292	+113
Per share ($)	2.56	2.38	1.50	+0.18
Return on capital employed (%)	4.8	1.5	(8.5)	+3.3
Cash flow return on capital employed (%)	15.3	12.4	7.3	+2.9
Expenditures on property, plant and equipment and exploration	608	456	652	+152
Debt	1 052	954	1 649	+98
Debt to cash flow (times)	1.7	1.8	5.6	-0.1
Debt to debt plus equity (%)	27.5	26.5	39.8	+1.0
Cash	129	(7)	(12)	+136
Debt, net of cash	923	961	1 661	-38

DIVISIONAL CONTRIBUTIONS	1993	1992	1991	CHANGE (1993 vs. 1992)
(MILLIONS OF DOLLARS)				
RESOURCES				
Net earnings (loss)	125	149	(64)	-24
Cash flow from operations	355	366	303	-11
PRODUCTS				
Net earnings (loss)	115	30	(488)	+85
Cash flow from operations	291	200	15	+91
CORPORATE AND OTHER				
Net expenses	(78)	(170)	(46)	+92
Cash flow from operations	(16)	(49)	(26)	+33

A continued focus on cost management enabled the Company to consolidate gains from the sharp reduction in its cost structure achieved in 1992.

The Company has also reduced its capital employed by restructuring its assets and cutting the working capital used in operations. Petro-Canada's return on capital employed rose to 4.8 per cent in 1993 from 1.5 per cent a year earlier. Cash flow return on capital employed rose to 15.3 per cent from 12.4 per cent.

Petro-Canada's financial performance continued to rank well above the average of other integrated oil companies in Canada.



RETURN ON CAPITAL EMPLOYED CONTINUED TO GROW (PER CENT)

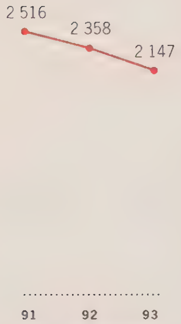
● CASH FLOW RETURN ON CAPITAL EMPLOYED

● RETURN ON CAPITAL EMPLOYED

DIVISIONS CONTRIBUTED TO IMPROVED RESULTS The Products division's earnings rose to $115 million from $30 million in 1992. Higher earnings resulted from lower crude oil costs, managing the mix of crude oils processed and reducing low-margin sales. Cash flow from operations rose $91 million to $291 million.

Earnings for the Resources division were $125 million, compared to $149 million in 1992 when earnings benefitted from $43 million in one-time items and $24 million in gains from asset sales. Gains added only $1 million in 1993. Cash flow from operations was $355 million, down $11 million from 1992.

Net expenses for the Corporate and Other segment were $78 million, down from $170 million in 1992 when unusual charges totalled $100 million. Segment results include a net loss of $9 million from ICG Propane, compared to a $4 million net loss in 1992.

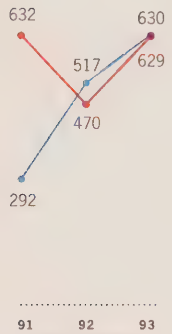


COSTS FOR CRUDE OIL & PRODUCT PURCHASES ARE DOWN (MILLIONS OF DOLLARS)

COMPANY REAPING COST REDUCTION BENEFITS Much of Petro-Canada's earnings growth over the past two years has resulted from its success in reducing costs. The Company intends to continue to manage the growth in costs and seek further reductions where possible.

Petro-Canada benefitted from reduced costs for crude oil purchases in 1993. The refineries made greater use of lower-cost crudes in their feedstock mix, while prices paid for crude oil were generally lower in the second half of the year. Overall, costs of crude oil and product purchases were reduced by $211 million.

Operating and overhead costs were cut dramatically in 1992, and that gain was essentially maintained in 1993. Ongoing operating costs rose by $13 million, while overhead was trimmed by a further $5 million.



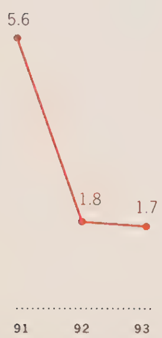
CAPITAL EXPENDITURES ARE ALIGNED WITH CASH FLOW (MILLIONS OF DOLLARS)

● CAPITAL AND EXPLORATION EXPENDITURES

● CASH FLOW FROM OPERATIONS

CAPEX HELD TO LEVEL OF CASH FLOW Total capital and exploration expenditures were $629 million, compared with cash flow of $630 million.

Of the total expenditures on property, plant and equipment and exploration, $139 million was used for conventional oil and gas development in Western Canada. Only $31 million was spent in total on exploration, as the Resources division focused on exploitation of already proven but undeveloped reserves. Some $165 million was invested in the development of the Hibernia offshore oil field. Another $189 million was expended in the Products division for improvements to refineries and the marketing network. Investments were funded from cash flow. In December, Petro-Canada Hibernia Partnership, through which Petro-Canada manages its interest in the Hibernia oil field, issued $150 million of Government-guaranteed bonds. The net proceeds of this issue were used to repay Government-guaranteed short-term debt used to finance the development of Hibernia.



DEBT TO CASH FLOW IS WITHIN THE TARGET RANGE OF LESS THAN TWO TIMES (TIMES)

PRUDENT DEBT MANAGEMENT CONTINUED Having reduced debt from $2.2 billion in June 1991 to $954 million at the end of 1992, Petro-Canada is committed to maintaining stability through a strong balance sheet. Debt rose during 1993, because of the accumulation of Hibernia debt and the revaluation of long-term debt denominated in U.S. dollars, ending the year at $1 052 million. However, the ratio of debt to cash flow – an indicator of a company's ability to repay debt – improved to 1.7 from 1.8. The ratio of debt to debt plus equity – a measure of the proportion of debt in a company's capital structure – was 27.5 per cent, up slightly from 26.5 per cent a year earlier but within the Company's target range of 20 to 30 per cent.

Petro-Canada ended the year with cash balances of $129 million. Net of cash, debt was down $38 million dollars over the year, to $923 million.

Primarily as result of the lower average debt, interest expenses in 1993 were $33 million lower than in 1992.

INTEREST EXPENSES ARE DOWN SHARPLY AS A RESULT OF DEBT REDUCTION
(MILLIONS OF DOLLARS)

STEPS TAKEN TO MANAGE VARIABILITY OF CASH FLOW Petro-Canada actively manages its exposure to a number of factors which could have significant impact on its cash flow.

To moderate the effects of potential volatility in market prices for crude oil and natural gas, Petro-Canada uses a variety of hedging techniques from time to time. In 1993, the Company sold forward about 65 per cent of its net crude oil production at prices averaging $20.94 a barrel, and thus had a high degree of protection from falling oil prices late in the year.

Fluctuations in the exchange rate between the Canadian and U.S. dollars also have significant impacts on cash flow and earnings. To moderate the effect of such fluctuations, the Company has a currency hedging program.

In 1993, the net effect of commodity and currency hedging resulted in a $20 million after-tax gain.

THE EXTERNAL ENVIRONMENT IN 1993

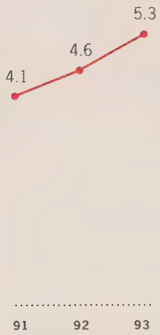
Factors in the external business environment significantly influence Petro-Canada's financial results.

Refining and marketing margins are affected by demand for refined products and by the state of competition in the market. Demand, in turn, is greatly influenced by the overall level of economic activity in Canada. In recent years, margins have been depressed by intense competition resulting from low demand and overcapacity in both refining and marketing. Canadian demand for refined products was marginally higher in 1993, and rationalization has partially reduced excess capacity, enabling improved profitability.

Earnings from crude oil production depend on market prices, which are closely linked to world supply and demand dynamics. World oil prices were volatile during 1993. During the first five months, the benchmark West Texas Intermediate (WTI) crude oil price averaged just under U.S. $20 per barrel, but it dropped to the U.S. $14 to $15 range in the fourth quarter. Over the year, WTI averaged U.S. $18.49, down from $20.56 during 1992. The weaker Canadian dollar in 1993 partially offset the drop in world oil prices for Canadian producers. The Canadian price for benchmark light crude averaged $21.89, down seven per cent from $23.52 in 1992.

Natural gas prices, in contrast, rose substantially, driven by strong U.S. demand and improved pipeline access for Canadian gas to U.S. markets. Excess gas supply in North America, and limited pipeline capacity out of Alberta and British Columbia, have depressed prices since 1986. By 1993, growing demand for natural gas in the United States essentially eliminated the natural gas surplus, while pipeline construction opened new markets in the northeastern United States and expanded export capacity to California and other western states. The average Alberta plant-gate price was $1.71 per thousand cubic feet in 1993, up 26 per cent from $1.36 in 1992. The gap between Canadian prices and U.S. spot prices narrowed considerably, to the benefit of Canadian producers.

The average U.S./Canada dollar exchange rate in 1993 was U.S. $0.78. However, the Canadian dollar weakened towards the end of the year to U.S. $0.76.



THE PRODUCTS DIVISION AGAIN ACHIEVED IMPROVED MARGINS (CENTS PER LITRE)

Petro-Canada's hedging program is conservative in nature. Its purpose is not to seek gain, but rather to reduce the variabilities in short-term cash flow that arise from the nature of its business, so as to ensure steadier and more predictable results. Petro-Canada does not take open positions nor speculate in futures.

Similarly, in managing its debt, Petro-Canada ensures a mix of maturities to reduce exposure to interest rate fluctuations, and holds much of its debt in U.S. dollars as a natural hedge against variations in oil and gas production revenues caused by currency fluctuations.

The Company has sold forward about 30 per cent of its expected 1994 net oil production at an average price of U.S. $19.25 per barrel and 55 per cent of its expected net natural gas production at an average price of $2.08 per thousand cubic feet. Currency hedges are in place on about 60 per cent of the Company's net currency exposure at an exchange rate of U.S. $0.754 per Canadian dollar, with approximately 50 per cent participation in rate movements below U.S. $0.751.

OUTLOOK FOR 1994 AND BEYOND The Company has implemented a comprehensive set of strategies designed to improve profitability over the next several years to at least return the cost of capital. It has selected a portfolio of businesses which it believes can deliver success and has achieved major reductions in ongoing costs. With the agreement reached in February 1994 to sell TroCana Resources, the unit established to hold Petro-Canada's remaining non-core oil and gas properties, the asset restructuring program is almost complete.

While Petro-Canada has some concern about oil prices in 1994, the outlook for natural gas is positive and further improvement is expected in downstream margins.

Management estimates the price of West Texas Intermediate crude oil, the benchmark for North American oil prices, will average U.S. $17 per barrel in 1994, as uncertainties continue in the international oil market, then strengthen to around U.S. $19 in 1995. Alberta plant-gate prices for natural gas are expected to average about $1.90 per thousand cubic feet in 1994, up significantly from 1993, and to rise to $2.15 in 1995 as demand continues to strengthen. In refining and marketing, the Company expects to see improved margins resulting from the reduction in refining capacity completed in 1993 and the rationalization of the marketing network.

In the longer term, beyond the weakness in current oil prices, Petro-Canada anticipates improved commodity prices. In the downstream, it expects economic growth will lead to greater profitability once industry rationalization has eliminated much of Canada's surplus refining and marketing capacity.

$555 MILLION OF CAPEX PLANNED FOR 1994 For 1994, the Board of Directors has approved a $555 million capital expenditure program for property, plant and equipment and exploration in support of the Company's strategies.

About $125 million will be invested in oil and gas development and exploration. Another $210 million, net of grants, is designated for development of the Hibernia oil field. Some $155 million will be used to enhance the reliability and efficiency of Petro-Canada's refineries and to further upgrade its marketing network. In addition, the Company intends to use a significant portion of the proceeds from the sale of TroCana Resources to increase capital expenditures for exploration and development in its Western Canada oil and gas businesses.

GLOSSARY OF FINANCIAL TERMS AND RATIOS

CAPITAL EMPLOYED Total assets less current liabilities excluding short-term notes payable and the current portion of long-term debt. [1]

CASH Cash and short-term deposits. [1]

CASH FLOW Cash flow from operations.

CONVENTIONAL PRODUCING COSTS PER BARREL OF OIL EQUIVALENT Field operating expenses, future site restoration provision, applicable overhead expenses and taxes (other than income taxes) relating to the production of conventional crude oil, natural gas and natural gas liquids divided by the related production volumes. Natural gas production (excluding injectants) is converted using 12 000 cubic feet of gas for one barrel of oil.

DEBT Notes payable and long-term debt including current portion. [1]

OPERATING EXPENSES Producing, refining and marketing expenses.

OVERHEAD EXPENSES General and administrative expenses.

CASH FLOW RETURN ON CAPITAL EMPLOYED Cash flow plus after-tax interest expense divided by average capital employed. Measures cash flow generated relative to the asset base.

DEBT TO CASH FLOW Debt divided by cash flow. Indicates the Company's ability to discharge its outstanding debt.

DEBT TO DEBT PLUS EQUITY Debt divided by debt plus equity. Shows the relative amount of debt in the Company's capital structure. Measures financial strength.

RETURN ON CAPITAL EMPLOYED Net earnings plus after-tax interest expense divided by average capital employed. Measures earnings generated relative to the asset base.

[1] *Less, in 1992, cash and short-term deposits designated for debt retirement.*

"IT SEEMS THAT PERHAPS THE TOUGH TIMES ARE NOW A THING OF THE PAST. WITH NUMEROUS 'BUY' RECOMMENDATIONS PRESENTLY FAVOURING PETRO-CANADA, THIS STOCK HAS NEVER RECEIVED SO MUCH BACKING FROM THE RESEARCH DEPARTMENTS OF BROKERAGE FIRMS."

MICHEL GIRARD, LA PRESSE, APRIL 5, 1993

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The preparation and presentation of the Company's consolidated financial statements is the responsibility of management. The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include some estimates which are based on management's best judgements. Information contained elsewhere in the Annual Report is consistent, where applicable, with that contained in the financial statements.

Management is also responsible for installing and maintaining a system of internal control to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced for preparation of financial statements. The Company's Internal Audit Department reviews the system of internal control to ensure that it is adequate and functioning properly.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises these responsibilities with the assistance of the Audit Committee of the Board.

The external auditors conduct an independent examination and express their opinion on the consolidated financial statements. The Auditors' Report outlines the external auditors' opinion and the scope of their examination.

President and Chief Executive Officer

Senior Vice-President and Chief Financial Officer
February 9, 1994

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Board of Directors exercises its responsibility for ensuring that management fulfills its financial reporting and internal control function with the assistance of the Audit Committee of the Board.

The Committee, which is composed of not less than three (currently five) directors who are not employees of the Company, reviews the annual consolidated financial statements prior to their approval by the Board. The Committee also reviews financial information contained in prospectuses and in reports filed with regulatory authorities, as required, as well as quarterly financial information.

With respect to the external auditors, the Committee reviews the terms of engagement, the annual audit plan, the Auditors' Report, the results of the external audit and any significant recommendations to strengthen internal controls. The Committee also recommends to the Board a firm of external auditors to be appointed by the shareholders.

The Committee receives periodic reports on the activities of the Internal Audit Department, reviews its significant findings and recommendations and approves the annual internal audit plan.

Senior management, the internal auditor and the external auditors attend all Audit Committee meetings and each is provided with the opportunity to meet privately with the Committee.

Chairman of the Audit Committee
February 9, 1994

AUDITORS' REPORT

To the Shareholders of Petro-Canada:
We have audited the consolidated balance sheet of Petro-Canada as at December 31, 1993 and 1992 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1993 and 1992 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1993 in accordance with generally accepted accounting principles.

Arthur Andersen & Co.

Chartered Accountants
Calgary, Alberta
February 9, 1994

CONSOLIDATED STATEMENT OF EARNINGS

(STATED IN MILLIONS OF DOLLARS)

FOR THE YEARS ENDED DECEMBER 31,	1993	1992	1991
REVENUE			
Operating	$4 507	$4 551	$4 806
Investment and other income	96	167	155
	4 603	4 718	4 961
EXPENSES			
Crude oil and product purchases	2 147	2 358	2 516
Producing, refining and marketing	1 354	1 307	1 554
General and administrative	236	241	300
Exploration	28	56	113
Depreciation, depletion and amortization	352	391	407
Taxes other than income taxes	65	67	67
Interest on long-term debt	72	117	134
Other interest	15	3	69
	4 269	4 540	5 160
UNUSUAL ITEMS (Note 4)	—	(121)	(770)
EARNINGS (LOSS) BEFORE INCOME TAXES	334	57	(969)
PROVISION FOR (RECOVERY OF) INCOME TAXES (Note 5)			
Current	116	70	(9)
Deferred	56	(22)	(362)
	172	48	(371)
NET EARNINGS (LOSS) (Note 6)	$ 162	$ 9	$ (598)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(STATED IN MILLIONS OF DOLLARS)

FOR THE YEARS ENDED DECEMBER 31,	1993	1992	1991
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR, as previously reported	$ (728)	$ (634)	$ 9
Adjustment for the cumulative effect of change in accounting policy on prior periods (Note 2)	—	(75)	—
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR, as restated	(728)	(709)	9
Net earnings (loss)	162	9	(598)
Dividends on common shares	(32)	(28)	(45)
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	$ (598)	$ (728)	$ (634)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(STATED IN MILLIONS OF DOLLARS)

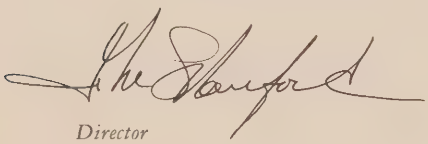
FOR THE YEARS ENDED DECEMBER 31,	1993	1992	1991
OPERATING ACTIVITIES			
Net earnings (loss)	$ 162	$ 9	$ (598)
Items not affecting cash flow from operations (Note 7)	440	452	777
Exploration expenses	28	56	113
Cash flow from operations	630	517	292
Decrease in advances on future natural gas deliveries	(12)	(15)	(18)
Decrease in operating working capital (Note 8)	28	54	108
	646	556	382
INVESTING ACTIVITIES			
Expenditures on property, plant and equipment and exploration	(608)	(456)	(652)
Proceeds from sale of property, plant and equipment	88	256	311
Proceeds from sale of investments	—	348	21
Other (increase) decrease in investments, net	(9)	(2)	49
Increase in deferred charges and other assets, net	(12)	(12)	(29)
	(541)	134	(300)
FINANCING ACTIVITIES AND DIVIDENDS			
Increase in notes payable - Hibernia (Note 14)	150	—	—
(Decrease) increase in short-term notes payable – Hibernia (Note 14)	(86)	86	—
Reduction of long-term debt	(91)	(880)	(726)
Dividends on common shares	(32)	(28)	(45)
Proceeds from issue of common shares	1	244	554
Proceeds from issue of long-term debt	—	100	674
Decrease in other short-term notes payable, net	—	(118)	(587)
	(58)	(596)	(130)
INCREASE (DECREASE) IN CASH AND SHORT-TERM DEPOSITS	47	94	(48)
CASH AND SHORT-TERM DEPOSITS (DEFICIENCY) AT BEGINNING OF YEAR	82	(12)	36
CASH AND SHORT-TERM DEPOSITS (DEFICIENCY) AT END OF YEAR	$ 129	$ 82	$ (12)

CONSOLIDATED BALANCE SHEET

(STATED IN MILLIONS OF DOLLARS)

AS AT DECEMBER 31,	1993	1992
ASSETS		
CURRENT ASSETS		
Cash and short-term deposits	$ 129	$ 82
Accounts receivable (Note 9)	540	580
Inventories (Note 10)	443	460
Prepaid expenses	29	26
Income taxes recoverable	—	8
	1 141	1 156
INVESTMENTS (Note 11)	88	80
PROPERTY, PLANT AND EQUIPMENT, NET (Note 12)	4 027	3 865
DEFERRED CHARGES AND OTHER ASSETS (Note 13)	276	249
	$5 532	$5 350
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 919	$ 933
Income taxes payable	53	—
Current portion of long-term debt	—	89
Short-term notes payable - Hibernia (Note 14)	—	86
	972	1 108
NOTES PAYABLE – HIBERNIA (Note 14)	150	—
LONG-TERM DEBT (Note 15)	902	868
DEFERRED CREDITS (Note 16)	224	264
DEFERRED INCOME TAXES	510	467
COMMITMENTS AND CONTINGENT LIABILITIES (Note 21)		
SHAREHOLDERS' EQUITY (Note 17)	2 774	2 643
	$5 532	$5 350

Approved on behalf of the Board



Director

Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(STATED IN MILLIONS OF DOLLARS)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Petro-Canada and of all subsidiary companies ("the Company") and comply in all material respects with Canadian generally accepted accounting principles.

The excess of the consideration paid for the shares of subsidiaries over the underlying net book values at the dates of acquisition is attributed to the related assets acquired and is amortized over the life of these assets.

(B) INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Cost of crude oil and products is determined primarily on a "last-in, first-out" basis.

(C) INVESTMENTS

Investments in companies over which the Company has significant influence are accounted for on the equity method. Other long-term investments are accounted for on the cost method.

(D) PROPERTY, PLANT AND EQUIPMENT

Investments in exploration and development activities are accounted for on the successful efforts method. Under this method the acquisition cost of unproved acreage is capitalized. Costs of exploratory wells are initially capitalized pending determination of proved reserves and costs of wells which are assigned proved reserves remain capitalized while costs of unsuccessful wells are charged to earnings. All other exploration costs are charged to earnings as incurred. Development costs, including the cost of all wells, are capitalized.

Substantially all of the Company's exploration and development activities are conducted jointly with others. Only the Company's proportionate interest in such activities is reflected in the financial statements.

The interest cost of debt attributable to the construction of major new facilities is capitalized during the construction period.

(E) DEPRECIATION, DEPLETION AND AMORTIZATION

The carrying amounts of unproved properties are evaluated periodically for impairment with any such impairment being charged to earnings.

Depreciation and depletion of capitalized costs of oil and gas producing properties is calculated using the unit of production method.

Depreciation of other plant and equipment is provided on either the unit of production method or the straight line method, based on the estimated service lives of the related assets, as appropriate.

(F) FUTURE REMOVAL AND SITE RESTORATION COSTS

Estimated future removal and site restoration costs which are probable and can be reasonably determined are provided for on either the unit of production method or the straight line method, based on the estimated service lives of the related assets, as appropriate.

(G) INCOME TAXES

Full provision is made for income taxes deferred as the result of claiming depreciation, exploration, development and other costs for income tax purposes which differ from the related amounts charged to earnings.

(H) TRANSLATION OF FOREIGN CURRENCY

Monetary assets and liabilities are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Other assets and related depreciation, depletion and amortization, other liabilities, revenue and other expense items are translated at rates of exchange in effect at the respective transaction dates. The resulting exchange gains or losses are included in earnings, except for unrealized exchange gains or losses arising on translation of long-term debt, which are deferred and amortized over the remaining term of the debt.

Foreign operations are integrated with the Company's other activities and are translated in the manner described above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(STATED IN MILLIONS OF DOLLARS)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) HEDGING ACTIVITY

The Company enters into futures and option contracts to reduce its exposure to foreign exchange and commodity price fluctuations. Gains and losses on these contracts which constitute effective hedges are deferred and recognized as a component of the related transaction.

(J) POST-RETIREMENT BENEFITS

In addition to its pension plans the Company provides for other post-retirement benefits, including health, dental and life insurance, to its qualifying retirees. The cost of these benefits is charged to earnings when paid.

2. CHANGE IN ACCOUNTING POLICY

Effective January 1, 1992 the Company changed from the first-in, first-out ("FIFO") method to the last-in, first-out ("LIFO") method of determining cost of crude oil and product inventories. The change was made to more closely match current costs with current revenues in the determination of the results of the Company's operations.

This change in accounting policy was adopted retroactively but individual prior periods were not restated because the effects of the change on such periods were not reasonably determinable. Accordingly, the deficit as at January 1, 1992 was increased by $75 million to reflect the cumulative effect of the change on prior periods, and inventories and deferred income taxes as at January 1, 1992 were reduced by $130 million and $55 million, respectively. For the year ended December 31, 1992, the change increased net earnings by $13 million and cash flow from operations by $23 million.

3. TAXES AND CROWN ROYALTIES

In addition to the provision for income taxes and other taxes included in the statement of earnings, the following items have been collected or produced on behalf of governments and have been paid or are payable by the Company:

	1993	1992	1991
Provincial fuel and sales taxes	$ 1 130	$ 1 164	$ 1 036
Federal excise taxes	708	737	730
Goods and Services Tax collected	542	540	551
Crown royalties, paid and paid in kind	117	101	106
	$ 2 497	$ 2 542	$ 2 423

4. UNUSUAL ITEMS

	1993	1992	1991
Restructure and reorganization	$ —	$ (60)	$ (655)
(Loss) gain on retirement of long-term debt	—	(53)	23
Loss on disposal of investments	—	(8)	—
Writedown of investment in Syncrude	—	—	(138)
	$ —	$ (121)	$ (770)

RESTRUCTURE AND REORGANIZATION

During 1992 the Company implemented an internal reorganization and staff reduction program. The cost of this program, in the amount of $60 million, was charged to 1992 earnings. A similar program was implemented in 1991, resulting in a charge to 1991 earnings of $18 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(STATED IN MILLIONS OF DOLLARS)

4. UNUSUAL ITEMS (CONTINUED)

In January 1992 the Company announced its intention to sell or joint venture its Montreal Refinery and to close refinery facilities located at Mississauga, Ontario, and Port Moody, British Columbia, and certain marketing facilities throughout Canada. The carrying amount of these facilities was written down and $201 million was provided for expenses to be incurred in connection with the closures. The asset writedown and the provision for the estimated closure expenses, which in aggregate amount to $637 million, were charged to earnings in 1991.

(LOSS) GAIN ON RETIREMENT OF LONG-TERM DEBT

The Company prepaid U.S $600 million of debt in 1992 and U.S. $600 million in 1991, thereby completing the repayment of agency debt required under the terms of an agreement to restructure the Company's long-term indebtedness to Petro-Canada Limited, a Crown corporation which formerly was Petro-Canada's parent company.

LOSS ON DISPOSAL OF INVESTMENTS

During 1992 the Company disposed of its 37% investment in Westcoast Energy Inc. ("Westcoast") and its 27% interest in Internationale de Services Industriels et Scientifiques ("ISIS"). The disposal of the investment in Westcoast together with the sale of a related installment receivable resulted in a loss of $50 million. The disposal of the investment in ISIS resulted in a gain of $42 million.

WRITEDOWN OF INVESTMENT IN SYNCRUDE

During 1991 the Company announced its intention to sell a portion of its working interest in the Syncrude Project and wrote down the carrying amount of its investment by $138 million to reflect estimated net realizable value. During 1992 the Company sold a 5% interest in the Project.

5. INCOME TAXES

The computation of the provision for (recovery of) income taxes, which requires adjustment to earnings (loss) before income taxes for non-taxable and non-allowable items, is as follows:

	1993	1992	1991
Earnings (loss) before income taxes	$ 334	$ 57	$ (969)
Add (deduct)			
Royalties and other payments to provincial governments, net	115	106	111
Resource allowance	(117)	(89)	(56)
Non-deductible depreciation, depletion and amortization	66	83	88
Non-deductible interest	(1)	(15)	2
Non-taxable (gains) losses	(4)	53	(3)
Equity in earnings of affiliates	(7)	(26)	(36)
Other	7	(29)	(28)
Earnings (loss) as adjusted before income taxes	$ 393	$ 140	$ (891)
Canadian Federal income tax rate	38.0%	38.0%	38.0%
Canadian Federal income tax on earnings (loss) as adjusted	$ 149	$ 53	$ (339)
Large Corporations Tax	9	9	11
Provincial and other income taxes, net of federal abatement	16	7	(38)
Rebates and other	(2)	(21)	(5)
Provision for (recovery of) income taxes	$ 172	$ 48	$ (371)

The provision for (recovery of) income taxes of $172 million (1992 - $48 million; 1991 - $(371) million) represents an effective rate of 51.5% (1992 - 84.2%; 1991 - 38.3%) on earnings (loss) before income taxes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(STATED IN MILLIONS OF DOLLARS)

6. NET EARNINGS (LOSS) PER COMMON SHARE

The basic net earnings (loss) per common share, based on the weighted average number of common shares outstanding in 1993 of 246.5 million (1992 - 217.1 million; 1991 - 194.1 million), for the year ended December 31, 1993 was $0.66 (1992 - $0.04; 1991 - ($3.08)). Fully diluted earnings per share, calculated on the assumption that all outstanding stock options were exercised, do not differ from the 1993 and 1992 basic net earnings per common share while the 1991 loss per common share would have been reduced by the calculation.

7. ITEMS NOT AFFECTING CASH FLOW FROM OPERATIONS

	1993	1992	1991
Depreciation, depletion and amortization	$ 352	$ 391	$ 407
Deferred income taxes	56	(22)	(362)
Provision for site restoration	24	20	18
Amortization of unrealized foreign exchange losses (gains)	14	6	(12)
Gain on sale of assets	(11)	(54)	(33)
Other	5	(17)	(15)
Unusual items, net (Note 4)	—	128	774
	$ 440	$ 452	$ 777

8. DECREASE (INCREASE) IN OPERATING WORKING CAPITAL

	1993	1992	1991
Accounts receivable	$ 40	$ 31	$ 162
Income taxes recoverable	8	21	(29)
Inventories (Note 2)	17	67	307
Prepaid expenses	(3)	7	15
Accounts payable and accrued liabilities	(14)	76	(155)
Income taxes payable	53	—	(134)
Current accruals relating to unusual items (Note 4) and other	(73)	(148)	(58)
	$ 28	$ 54	$ 108

Operating working capital is comprised of working capital other than cash and short-term deposits, outstanding cheques less cash and short-term deposits, short-term notes payable and current portion of long-term debt.

9. ACCOUNTS RECEIVABLE

The Company is party to an agreement to sell accounts receivable with limited recourse on a revolving basis. As at December 31, 1993 accounts receivable of $164 million (1992 - $201 million) have been sold pursuant to this agreement.

10. INVENTORIES

	1993	1992
Crude oil, refined products and merchandise	$ 390	$ 406
Materials and supplies	53	54
	$ 443	$ 460

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(STATED IN MILLIONS OF DOLLARS)

11. INVESTMENTS

	1993	1992
AT EQUITY		
Petro-Canada Centre [1]	$ 32	$ 30
Other	21	22
AT COST		
Loans and other investments	35	28
	$ 88	$ 80

[1] *The Company owns 50% of Petro-Canada Centre, an office complex in Calgary. The Company has entered into a long-term lease for use of a portion of the complex and, as at December 31, 1993, has guaranteed or provided support for a guarantee of $287 million of debt related to the facility.*

12. PROPERTY, PLANT AND EQUIPMENT

	1993			1992			Capital Expenditures	
	Cost	Accumulated Depreciation, Depletion & Amortization	Net	Cost	Accumulated Depreciation, Depletion & Amortization	Net	1993	1992
NATURAL RESOURCES								
Oil and gas								
Canada non-frontier	$ 3 050	$ 1 723	$ 1 327	$ 3 064	$1 720	$ 1 344	$ 164	$149
Hibernia Project	379	—	379	214	—	214	165	93
Other frontier	68	—	68	62	—	62	6	—
Foreign	8	7	1	16	8	8	7	(4)
Oil sands								
Syncrude Project	532	187	345	521	172	349	11	9
Other	220	220	—	219	219	—	1	2
Natural gas liquids	277	167	110	262	136	126	15	26
Other	77	66	11	77	62	15	—	—
	4 611	2 370	2 241	4 435	2 317	2 118	369	275
REFINED PRODUCTS								
Refining	2 069	1 213	856	1 943	1 166	777	129	59
Marketing and other	1 124	376	748	1 108	342	766	60	50
	3 193	1 589	1 604	3 051	1 508	1 543	189	109
OTHER PROPERTY, PLANT AND EQUIPMENT	541	359	182	527	323	204	22	16
	$ 8 345	$ 4 318	$ 4 027	$ 8 013	$ 4 148	$ 3 865	$ 580	$ 400

Interest capitalized during 1993 amounted to $14 million (1992 - $8 million; 1991 - $10 million). Costs relating to the Hibernia Project and other frontier are not currently being amortized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(STATED IN MILLIONS OF DOLLARS)

13. DEFERRED CHARGES AND OTHER ASSETS

	1993	1992
Translation adjustment on long-term debt	$ 116	$ 93
Deferred pension funding	59	49
Goodwill	48	56
Investment tax credits	19	13
Other	34	38
	$ 276	$ 249

14. NOTES PAYABLE - HIBERNIA

During December 1993 the Company issued $150 million 6.125% bonds due December 15, 1998. These bonds relate to the Hibernia Project and are guaranteed by the Government of Canada (Note 21 (b)); recourse of the bondholders is limited to the guarantee.

The proceeds of the bond issue were used to repay notes payable, also guaranteed by the Government of Canada, of which $86 million were outstanding at December 31, 1992.

15. LONG-TERM DEBT

	MATURITY	1993	1992
9.375% unsecured notes [1]	1997	$ 108	$ 106
8.60% unsecured notes (U.S. $300 million)	2001	397	381
9.25% unsecured debentures (U.S. $300 million)	2021	397	381
LIBOR less 0.8% unsecured notes (1992-U.S. $70 million) [2]		—	89
		902	957
Less current portion [2]		—	89
		$ 902	$ 868

[1] *Canadian dollar notes and the related interest payments have been converted into U.S. $82 million (1992 - U.S. $83 million) through a currency swap arrangement, resulting in an effective interest rate of 7.39% which includes the foreign exchange effect, net of income tax, inherent in the notes' financing structure.*

[2] *At December 31, 1992 cash and short-term deposits of $89 million was designated for retirement of these LIBOR notes.*

The minimum repayment of long-term debt in the next five years is $108 million in 1997.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(STATED IN MILLIONS OF DOLLARS)

16. DEFERRED CREDITS

	1993	1992
Future removal and site restoration costs	$ 172	$ 191
Long-term liabilities	48	57
Advances on future natural gas deliveries	4	16
	$ 224	$ 264

17. SHAREHOLDERS' EQUITY

	1993	1992
Common shares	$ 800	$ 799
Contributed surplus	2 572	2 572
Retained earnings (deficit)	(598)	(728)
	$ 2 774	$ 2 643

The authorized share capital of the Company is comprised of an unlimited number of:

(a) Preferred shares issuable in series designated as Senior Preferred Shares;

(b) Preferred shares issuable in series designated as Junior Preferred Shares; and

(c) Common shares.

Changes in share capital and contributed surplus were as follows:

	1993			1992		
	COMMON SHARES		CONTRIBUTED	COMMON SHARES		CONTRIBUTED
	SHARES	AMOUNT	SURPLUS	SHARES	AMOUNT	SURPLUS
Balance at beginning of year	246 463 165	$ 799	$ 2 572	215 294 888	$ 555	$ 2 572
Issued under stock option plan	62 878	1	—	—	—	—
Issued under employee purchase plan	—	—	—	818 277	—	—
Issued for cash	—	—	—	30 350 000	244	—
Balance at end of year	246 526 043	$ 800	$ 2 572	246 463 165	$ 799	$ 2 572

As at December 31, 1993 stock options were outstanding for 1 038 054 shares at $13.00, 457 300 shares at $8.125 and 343 000 shares at $7.875. These options, which were granted under the terms of the Executive Stock Option Plan, expire on July 3, 2001, July 29, 2002 and March 18, 2003, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(STATED IN MILLIONS OF DOLLARS)

18. PENSION PLANS

The Company's plans are defined benefit plans with the benefits generally based upon years of service and average salary during the final years of employment. The registered pension plans are funded by the Company, based upon the advice of an independent actuary, and the assets are held primarily in equity, fixed income and other marketable securities.

	1993	1992
FINANCIAL STATUS		
Actuarial value of assets	$ 669	$ 650
Pension obligation	649	610
Net pension asset	$ 20	$ 40

The net pension asset is amortized to earnings over the expected average remaining service life of the employees covered by the plans, which is currently 13 years.

As at December 31, 1993 $603 million (December 31, 1992 - $596 million) of the pension obligation was vested.

	1993	1992	1991
PENSION EXPENSE			
Current service cost	$ 22	$ 24	$ 23
Interest cost	54	52	48
Actual return on plan assets	(142)	(24)	(83)
Net amortization and deferral	86	(37)	29
	$ 20	$ 15	$ 17
Pension Funding	$ 31	$ 26	$ 28
PLAN ASSUMPTIONS			
Discount rate	9.0%	9.0%	9.0%
Long-term rate of return on plan assets	9.0%	9.0%	9.0%
Rate of compensation increase, excluding merit increases	6.0%	6.0%	6.0%

19. RELATED PARTY TRANSACTIONS

Transactions with the Government of Canada (which holds 70.3% of the Company's issued common shares at December 31, 1993), its agencies and other related parties, are in the normal course of business and are therefore on the same terms as those accorded to non-related parties.

As at December 31, 1993 officers and employees owed the Company $5 million (1992 - $7 million) in relation tc stock purchase plans.

20. SEGMENTED INFORMATION

The Company operates in two business segments:

Natural Resources, comprising: exploration, development, production, transportation and marketing activities for crude oil, natural gas, field liquids, sulphur and oil sands; and extraction of liquids from natural gas.

Refined Products, comprising: purchase and sale of crude oil; refining crude oil into oil products; and distribution and marketing of these and other purchased products.

Financial information by business segment is presented in the following table as though each segment were a separate business entity. Inter-segment transfers of products, which are accounted for at market value, are eliminated on consolidation. Corporate and Other includes propane marketing, investment income, interest expense and unallocated general corporate revenues and expenditures. Corporate and Other assets are principally cash and short-term deposits, investments in other companies, propane marketing assets and general corporate assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(STATED IN MILLIONS OF DOLLARS)

20. SEGMENTED INFORMATION (CONTINUED)

	NATURAL RESOURCES			REFINED PRODUCTS		
	1993	1992	1991	**1993**	1992	1991
REVENUE						
Sales to customers and other revenues	$ 503	$ 410	$ 405	$ 3 760	$ 3 979	$ 4 174
Inter-segment sales	572	616	664	32	21	19
SEGMENT REVENUE	$ 1 075	$ 1 026	$ 1 069	$ 3 792	$ 4 000	$ 4 193
EARNINGS						
Operating earnings (loss) before the following:	$ 471	$ 500	$ 427	$ 331	$ 227	$ (15)
Depreciation, depletion and amortization	(202)	(194)	(212)	(118)	(164)	(162)
Exploration expense	(28)	(56)	(113)	—	—	—
Unusual items	—	—	(138)	—	—	(655)
(Provision for) recovery of income taxes	(116)	(101)	(28)	(98)	(33)	344
NET EARNINGS (LOSS)	$ 125	$ 149	$ (64)	$ 115	$ 30	$ (488)
CAPITAL AND EXPLORATION EXPENDITURES						
Property, plant and equipment and exploration expenditures	$ 397	$ 331	$ 341	$ 189	$ 109	$ 287
Investments	9	—	—	1	3	2
Deferred charges and other assets	6	1	4	(4)	(6)	2
	$ 412	$ 332	$ 345	$ 186	$ 106	$ 291
TOTAL ASSETS	$ 2 506	$ 2 371	$ 2 485	$ 2 426	$ 2 413	$ 2 724
CAPITAL EMPLOYED	$ 2 262	$ 2 120	$ 2 247	$ 1 837	$ 1 799	$ 2 161

	CORPORATE AND OTHER			CONSOLIDATED		
	1993	1992	1991	**1993**	1992	1991
REVENUE						
Sales to customers and other revenues	$ 340	$ 329	$ 382	$ 4 603	$ 4 718	$ 4 961
Inter-segment sales	—	—	—			
SEGMENT REVENUE	$ 340	$ 329	$ 382			
EARNINGS						
Operating earnings (loss) before the following:	$ (1)	$ 18	$ 112	$ 801	$ 745	$ 524
Depreciation, depletion and amortization	(32)	(33)	(33)	(352)	(391)	(407)
Exploration expense	—	—	—	(28)	(56)	(113)
Interest	(87)	(120)	(203)	(87)	(120)	(203)
Unusual items	—	(121)	23	—	(121)	(770)
(Provision for) recovery of income taxes	42	86	55	(172)	(48)	371
NET EARNINGS (LOSS)	$ (78)	$ (170)	$ (46)	$ 162	$ 9	$ (598)
CAPITAL AND EXPLORATION EXPENDITURES						
Property, plant and equipment and exploration expenditures	$ 22	$ 16	$ 24	$ 608	$ 456	$ 652
Investments	(1)	(1)	(51)	9	2	(49)
Deferred charges and other assets	10	17	23	12	12	29
	$ 31	$ 32	$ (4)	$ 629	$ 470	$ 632
TOTAL ASSETS	$ 600	$ 566	$ 825	$ 5 532	$ 5 350	$ 6 034
CAPITAL EMPLOYED	$ 461	$ 409	$ 757	$ 4 560	$ 4 328	$ 5 165

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(STATED IN MILLIONS OF DOLLARS)

21. COMMITMENTS AND CONTINGENT LIABILITIES

(a) The Company has leased property and equipment under various long-term operating leases for periods up to 2012. The minimum annual rentals for non-cancellable operating leases are estimated at $96 million in 1994, $78 million in 1995, $67 million in 1996, $54 million in 1997, $43 million in 1998 and $21 million per year thereafter until 2012.

(b) The Company is a participant in the project to develop the Hibernia offshore oil field. Costs to production start-up are estimated at $5.1 billion; the Company's 25% share after Government contributions is expected to be approximately $1.0 billion (before related investment tax credits), of which $358 million had been expended to December 31, 1993. The Company's investment in the Project will be financed, in part, by Government guaranteed loans to a maximum of $415 million; the Government's recourse to the Company is limited, subject to the Company's compliance with certain covenants, to the Hibernia Project (Note 14). The Company's share of development costs subsequent to production start-up is estimated at $550 million, which is expected to be financed from cash flow from the Project.

(c) The Company has sold forward 30% of its estimated 1994 net crude oil production and 55% of its estimated 1994 net natural gas production at an average price of U.S. $19.25 per barrel and Canadian $2.08 per mcf, respectively.

(d) The Company is involved in litigation and claims associated with normal operations. Management is of the opinion that any resulting settlements would not materially affect the financial position of the Company.

22. COMPARATIVE FIGURES

Certain reclassifications have been made to the 1992 and 1991 comparative figures to conform with the current year's presentation.

"THE MANAGEMENT OF PETRO-CANADA HAS DONE A SUPERB JOB OF RESTRUCTURING THE ORGANIZATION. THE RESULTS HAVE BEEN IMPROVED PROFITABILITY AND SIGNIFICANTLY REDUCED DEBT OBLIGATION. THROUGH DILIGENT MANAGEMENT EFFORTS AND A DISCIPLINED STRATEGY, WE BELIEVE PETRO-CANADA HAS MADE ONE OF THE MOST REMARKABLE TURNAROUNDS."

ROBERT H. ROBINSON, EQUITY RESEARCH, SCOTIA MCLEOD INC., FEBRUARY 1994

SUPPLEMENTAL INFORMATION

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES

The Company's consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada, which differ in some respects from those applicable in the United States. The significant differences in accounting principles as they pertain to the accompanying consolidated financial statements are described in the Statistical Supplement to this Annual Report, and in the Company's Form 40-F report, which is filed with the Securities and Exchange Commission in the United States.

The Statistical Supplement also includes disclosures in accordance with the United States Financial Accounting Standards Board Statement No. 69 ("Disclosures About Oil and Gas Producing Activities").

Form 40-F and the Statistical Supplement are available on request (see inside back cover).

OIL AND GAS LANDHOLDINGS (GROSS/NET) [1]

(MILLIONS OF ACRES)	1993			1992			1991		
	DEVELOPED [2]	UNDEVELOPED [3]	TOTAL	DEVELOPED	UNDEVELOPED	TOTAL	DEVELOPED	UNDEVELOPED	TOTAL
Alberta									
Conventional	2.2/0.9	0.9/0.4	3.1/1.3	2.3/0.8	1.1/0.5	3.4/1.3	2.5/1.1	1.5/0.9	4.0/2.0
Oil sands	0.1/—	0.8/0.3	0.9/0.3	0.1/—	0.9/0.3	1.0/0.3	0.5/0.1	1.8/0.6	2.3/0.7
British Columbia	0.7/0.4	0.5/0.3	1.2/0.7	0.6/0.4	0.6/0.4	1.2/0.8	0.8/0.5	0.8/0.6	1.6/1.1
Saskatchewan/ Manitoba	0.3/0.1	0.3/0.3	0.6/0.4	0.3/0.1	0.3/0.3	0.6/0.4	0.3/0.1	0.5/0.4	0.8/0.5
Frontier Canada	—/—	12.5/10.6	12.5/10.6	—/—	12.6/10.6	12.6/10.6	—/—	13.2/10.8	13.2/10.8
International	—/—	2.0/2.0	2.0/2.0	—/—	10.3/4.4	10.3/4.4	—/—	10.4/5.0	10.4/5.0
Total	3.3/1.4	17.0/13.9	20.3/15.3	3.3/1.3	25.8/16.5	29.1/17.8	4.1/1.8	28.2/18.3	32.3/20.1

[1] *Gross acres includes the interests of others while net acres excludes the interests of others.*

[2] *Developed lands refers to areas in which Petro-Canada has an interest in producing wells or wells capable of production.*

[3] *Undeveloped lands refers to areas, other than developed lands, in which Petro-Canada has rights to explore for oil and natural gas.*

NET RESERVES OF CRUDE OIL, NATURAL GAS AND SULPHUR BEFORE ROYALTIES

CRUDE OIL AND FIELD NATURAL GAS LIQUIDS

At year-end 1993, prices for benchmark light crude were down 25 per cent and prices for benchmark heavy crude oil were down 19 per cent compared to year-end 1992. The prices for light crude at Edmonton and heavy crude at Hardisty were $17.16 and $12.45 per barrel respectively. The price adjustment resulted in reclassifying 15.5 million barrels of reserves from proven to probable. This change was offset by some technical revisions, for a net negative revision of 11.1 million barrels. In 1993, the Company disposed of and acquired properties as part of its Western Canada asset rationalization program. This resulted in divestitures of 6.8 million barrels and acquisitions of 0.9 million barrels of reserves. Discoveries and extensions accounted for 9.4 million barrels of additions, replacing 45 per cent of conventional production, with major additions including discoveries in the Peace River Arch area and extensions at Gilby, Valhalla and Alderson.

The positive revision of 8.6 million barrels for synthetic crude oil relates to increased production rates achieved at Syncrude. In 1993, the Company sold its interest in a block in Colombia, resulting in the 0.9 million barrel divestiture indicated for international reserves.

Based on the reserve estimates of participants, 154 million barrels of recoverable reserves before royalties are attributable to Petro-Canada's 25 per cent interest in Hibernia. It is estimated that the Hibernia peak production rate will average 125 000 barrels per day. Reserves will be booked when appropriate during the development and production phases of this project. Petro-Canada has announced its intention to sell a minority percentage of its interest in Hibernia providing appropriate value can be obtained, although the timing and extent of any such sale are uncertain.

SUPPLEMENTAL INFORMATION

NATURAL GAS

At year-end 1993, prices were up 34 per cent compared to year-end 1992, with a year-end average price for natural gas of $1.96 per thousand cubic feet. The price adjustment resulted in the reclassification of 41.5 billion cubic feet of reserves from probable to proven. This change was partially offset by some technical revisions, for a net positive revision of 13.6 billion cubic feet. In 1993, the Company disposed of and acquired properties as part of its Western Canada asset rationalization program. This resulted in divestitures of 54.7 billion cubic feet and acquisitions of 26.4 billion cubic feet of reserves. Discoveries and extensions accounted for 128.7 billion cubic feet of additions, replacing 63 per cent of production, with major additions including extensions at Gilby, Fireweed, Kaybob and Kotcho. Reappraisals at Yoyo and Klua accounted for the major offsetting technical revisions.

	CRUDE OIL AND FIELD NATURAL GAS LIQUIDS (MILLIONS OF BARRELS)				NATURAL GAS (BILLIONS OF CUBIC FEET)	SULPHUR (MILLIONS OF TONS)
	CONVENTIONAL WESTERN PROVINCES	CONVENTIONAL INTERNATIONAL	SYNTHETIC CRUDE OIL & BITUMEN [1]	TOTAL		
NET PROVED DEVELOPED AND UNDEVELOPED RESERVES BEFORE ROYALTIES [2, 3]						
Beginning of year 1991	275.4	—	243.4	518.8	3 024.5	6.2
Revisions of previous estimates [4]	(42.4)	1.1	(4.0)	(45.3)	(190.4)	(0.2)
Improved recovery methods	0.1	—	—	0.1	—	—
Sale of reserves in place	(20.8)	—	—	(20.8)	(148.7)	(0.1)
Purchase of reserves in place	1.7	—	—	1.7	53.6	0.3
Discoveries and extensions	2.2	—	—	2.2	105.4	0.3
Production	(22.2)	—	(11.5)	(33.7)	(191.1)	(0.4)
End of year 1991	194.0	1.1	227.9	423.0	2 653.3	6.1
Revisions of previous estimates [4]	35.4	—	50.0	85.4	11.2	(0.4)
Improved recovery methods	—	—	—	—	—	—
Sale of reserves in place	(24.7)	(0.2)	(67.0)	(91.9)	(242.0)	(0.5)
Purchase of reserves in place	26.7	—	—	26.7	165.4	0.4
Discoveries and extensions	3.2	—	—	3.2	2.7	—
Production	(20.2)	—	(8.9)	(29.1)	(186.5)	(0.4)
End of year 1992	214.4	0.9	202.0	417.3	2 404.1	5.2
Revisions of previous estimates [4]	(11.1)	—	8.6	(2.5)	13.6	0.2
Improved recovery methods	0.3	—	—	0.3	—	—
Sale of reserves in place	(6.8)	(0.9)	—	(7.7)	(54.7)	—
Purchase of reserves in place	0.9	—	—	0.9	26.4	—
Discoveries and extensions	9.4	—	—	9.4	128.7	—
Production	(21.1)	—	(8.0)	(29.1)	(205.0)	(0.2)
End of year 1993	186.0	—	202.6	388.6	2 313.1	5.2
NET PROVED DEVELOPED RESERVES BEFORE ROYALTIES						
End of 1991	147.7	—	227.9	375.6	1 905.0	5.2
End of 1992	177.6	0.9	202.0	380.5	1 755.8	4.4
End of 1993	157.1	—	202.6	359.7	1 711.0	4.5
NET PROVED DEVELOPED AND UNDEVELOPED RESERVES AFTER ROYALTIES [2, 3]						
End of 1991	159.5	0.9	207.8	368.2	2 189.4	5.2
End of 1992	179.4	0.7	182.6	362.7	1 981.0	4.4
End of 1993	161.0	—	181.9	342.9	1 894.4	4.5

SUPPLEMENTAL INFORMATION

NET RESERVES OF CRUDE OIL, NATURAL GAS AND SULPHUR (CONTINUED)

[1] *Proved developed reserves of synthetic crude oil are based on an average gross production rate at Syncrude of 184 000 barrels per day to the year 2018. Proved reserve quantities would increase if increased production rates are realized or if the operating permit were extended beyond 2018.*

[2] *Net proved developed and undeveloped reserves before royalties are Petro-Canada's working interest in reserves before the deduction of Crown or other royalties. Such royalties are subject to change by legislation or regulation and can also vary depending on production rates, selling prices and timing of initial production. No reserve quantities have been included to reflect royalty interests Petro-Canada has in various properties.*

[3] *Proved reserves are the estimated quantities of crude oil, natural gas, natural gas liquids and sulphur which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, including reserves to be obtained by enhanced recovery processes demonstrated to be successful and from that portion of an area delineated by drilling and defined by gas-oil and/or oil-water contacts in drilled wells or immediately adjacent portions not yet drilled but which can be reasonably evaluated as economically productive, on the basis of geological, geophysical and engineering data. Proved developed reserves are those proved reserves that are expected to be recovered from existing wells or facilities. Proved undeveloped reserves are proved reserves which are not recoverable from existing wells or facilities, but that are expected to be recovered through additional development drilling or through the upgrading of existing or additional new facilities.*

[4] *Revisions to recoverable reserve estimates resulting from the application of year-end product prices and uninflated operating and expected development costs as at year end are included in revisions to previous estimates.*

PRINCIPAL RESERVE AND PRODUCTION LOCATIONS

CRUDE OIL FIELDS	PROVED RESERVES BEFORE ROYALTIES AT DECEMBER 31, 1993 (MILLIONS OF BARRELS)	TOTAL PROVED RESERVES BEFORE ROYALTIES AT DECEMBER 31, 1993 (PER CENT)	AVERAGE 1993 DAILY PRODUCTION BEFORE ROYALTIES (THOUSANDS OF BARRELS)	TOTAL AVERAGE 1993 DAILY PRODUCTION BEFORE ROYALTIES (PER CENT)
Valhalla, Alberta	34.4	23	6.3	14
Golden Lake, Saskatchewan	32.8	22	3.0	7
Pembina, Alberta	11.3	8	2.4	5
Bellshill Lake, Alberta	9.8	7	7.5	16
Boundary Lake, B.C.	9.0	6	1.8	4
Utikuma, Alberta	8.5	6	3.3	7
Wainwright, Alberta	7.4	5	2.5	6
Cactus Lake, Saskatchewan	6.7	4	1.7	4
Shekilie, Alberta	3.6	2	0.6	1
Other	24.9	17	16.2	36
Total	148.4	100	45.3	100

SUPPLEMENTAL INFORMATION

NATURAL GAS

FIELDS	PROVED RESERVES BEFORE ROYALTIES AT DECEMBER 31, 1993 (BILLIONS OF CUBIC FEET)	TOTAL PROVED RESERVES BEFORE ROYALTIES AT DECEMBER 31, 1993 (PER CENT)	AVERAGE 1993 DAILY PRODUCTION BEFORE ROYALTIES (MILLIONS OF CUBIC FEET)	TOTAL AVERAGE 1993 DAILY PRODUCTION BEFORE ROYALTIES (PER CENT)
Hanlan, Alberta	350.8	15	84.5	15
Jedney, B.C.	214.2	9	33.4	6
Ricinus, Alberta	153.3	7	20.9	4
Wildcat Hills, Alberta	152.9	7	33.5	6
Medicine Hat, Alberta	146.5	6	20.0	3
Yoyo, B.C.	131.1	6	38.9	7
Laprise Creek, B.C.	126.8	5	39.4	7
Gilby, Alberta	118.8	5	27.8	5
Brazeau River, Alberta	103.7	5	1.2	—
Alderson, Alberta	84.2	4	14.5	3
Whitecourt, Alberta	55.2	2	24.0	4
Clarke Lake, B.C.	53.4	2	20.2	4
Hatton, Saskatchewan	50.2	2	11.1	2
Windfall, Alberta	46.5	2	22.7	4
Kaybob, Alberta	46.0	2	21.1	4
Other	479.5	21	148.5	26
Total	2 313.1	100	561.7	100

The reserves and production data in these tables do not include natural gas liquids.

REFINING BY LOCATIONS

Petro-Canada owns and operates three refineries: Edmonton, Montreal and Lake Ontario, which includes plants at Oakville and Mississauga, Ontario. The refineries produce a full slate of refined petroleum products, including gasolines, diesel fuels, heating oils, aviation fuels, asphalts and petrochemical feedstocks. The Mississauga plant produces lubricants and asphalts, using feedstock from the plant at Oakville.

Over the past three years, in order to improve overall refinery utilization, Petro-Canada has closed refineries at Taylor and Port Moody in British Columbia and has permanently shut down refining units at Mississauga.

(THOUSANDS OF CUBIC METRES)	AVERAGE VOLUMES OF CRUDE OIL PROCESSED PER CALENDAR DAY [1]			DAILY RATED CAPACITY AS AT DECEMBER 31 [2,3]
	1993	1992	1991	**1993**
Edmonton, Alberta	15.5	14.3	13.9	18.4
Lake Ontario, Ontario [4]	13.4	13.6	13.7	12.8
Montreal, Quebec [5]	11.2	9.3	10.6	13.9
Port Moody, British Columbia [6]	1.3	4.4	2.3	—
Taylor, British Columbia [7]	—	—	0.9	—
Total	41.4	41.6	41.4	45.1

[1] *For refineries which closed or recommenced processing crude oil part way through the year, average daily volumes are calculated as if the refinery had operated all year. As a result, actual daily volumes will be greater than those shown in the table.*

[2] *Daily rated capacity is based on calendar days and definite specifications as to types of crude oil, the products to be obtained and the refinery process required. Variations in these factors may result in actual capacity being higher or lower than rated capacities.*

[3] *Petro-Canada's average rated capacity utilization was 79 per cent in 1993 compared to 72 per cent in 1992. Average refinery utilization takes into account, where applicable, changes in refinery crude capacity that occurred during the year.*

[4] *Crude oil and fuel products units at the Mississauga plant were permanently shut down in November, 1993, reducing the capacity of the Lake Ontario refinery by 6 600 cubic metres per day.*

[5] *Purchases of partially processed feedstock of approximately 300 cubic metres per day in 1991, 1 600 cubic metres per day in 1992 and 900 cubic metres per day in 1993 are not included in refinery processing volumes.*

[6] *Refining units at Port Moody were taken out of service in April 1993. The daily rated capacity of the refinery was 5 900 cubic metres. The plant and a nearby distribution terminal have been converted into a product receipt and handling facility, receiving refined product by pipeline from the Edmonton refinery.*

[7] *The Taylor refinery was closed in July 1991. The daily rated capacity of this refinery was 2 500 cubic metres.*

FIVE YEAR FINANCIAL AND OPERATING SUMMARY

This summary is shorter than in previous annual reports. To reduce costs, the information which has proved of most use to many shareholders is presented here on two pages. More detail is provided on a seven-year basis in a Statistical Supplement to the Annual Report, available on request (see inside back cover).

(STATED IN MILLIONS OF DOLLARS, UNLESS OTHERWISE INDICATED)	**1993**	1992	1991	1990	1989
CONSOLIDATED					
Revenue	$4 603	$4 718	$4 961	$5 873	$5 026
Expenses	4 269	4 540	5 160	5 534	4 869
Unusual items	—	(121)	(770)	—	(92)
Provision for (recovery of) income taxes	172	48	(371)	163	49
Net earnings (loss)	$ 162	$ 9	$ (598)	$ 176	$ 16
Cash flow from operations	630	517	292	621	452
Total assets	5 532	5 350	6 034	7 278	6 743
Average capital employed	4 444	4 682	5 649	5 843	5 597
Return on capital employed (per cent)	4.8	1.5	(8.5)	5.9	2.6
Cash flow return on capital employed (per cent)	15.3	12.4	7.3	13.6	10.4
Debt	1 052	954	1 649	2 242	1 948
Debt to debt plus equity (per cent)	27.5	26.5	39.8	46.5	45.9
Expenditures on property, plant and equipment and exploration	608	456	652	643	568
Employees (number at year end)					
Petro-Canada	5 029	5 329	6 213	6 353	6 468
Subsidiaries	2 290	2 931	3 311	3 453	2 329
Total	7 319	8 260	9 524	9 806	8 797
SHAREHOLDERS' DATA					
Weighted average number of common shares outstanding (millions)	246.5	217.1	194.1		
Common shares outstanding at year end (millions)	246.5	246.5	215.3		
Publicly held common shares at year end (millions)	73.3	73.2	42.0		
Share prices (dollars) [2]					
– at year end	12	8⅛	9½		
– range during the year	7¼-14	7⅞-10⅞	9-13¼		
Shares traded (millions) [3]	83.7	27.0	32.3		
Book value per share	11.25	10.72	11.23		
RESOURCES DIVISION					
Earnings from operations	$ 125	$ 149	$ 31	$ 199	$ 84
Unusual items	—	—	(95)	—	—
Net earnings (loss)	$ 125	$ 149	$ (64)	$ 199	$ 84
Cash flow from operations	355	366	303	480	374
Expenditures on property, plant and equipment and exploration					
Hibernia	$ 165	$ 93	$ 62	$ 12	$ 3
Other	232	238	279	381	331
	$ 397	$ 331	$ 341	$ 393	$ 334

FIVE YEAR FINANCIAL AND OPERATING SUMMARY

(STATED IN MILLIONS OF DOLLARS, UNLESS OTHERWISE INDICATED)	1993	1992	1991	1990	1989
RESOURCES DIVISION (CONTINUED)					
DAILY PRODUCTION (NET, BEFORE ROYALTIES)					
Crude oil and field liquids (thousands of barrels)	79.8	79.8	92.5	94.3	100.4
Natural gas (excluding injectants, millions of cubic feet)	562	507	508	484	556
Ethane and natural gas liquids production from straddle plants (thousands of barrels)	40.8	36.4	34.0	42.4	44.8
Average sales prices					
Crude oil and field liquids ($ per barrel)	18.83	19.65	19.21	24.02	19.36
Natural gas ($ per thousand cubic feet)	1.56	1.28	1.39	1.53	1.48
PROVED RESERVES (NET, BEFORE ROYALTIES)					
Crude oil and field liquids (millions of barrels)	389	417	423	519	528
Natural gas (trillions of cubic feet)	2.3	2.4	2.7	3.0	3.4
OIL AND GAS LANDHOLDINGS (GROSS/NET) (millions of acres)	20.3/15.3	29.1/17.8	32.3/20.1	41.5/25.6	37.2/23.3
WELLS DRILLED (GROSS/NET)					
Oil	165/100	49/25	36/9	71/26	105/32
Natural gas	196/87	41/6	64/20	91/34	77/42
Oil sands	2/1	—	—	—	20/6
Dry	24/10	15/4	19/8	33/22	35/26
Total	387/198	105/35	119/37	195/82	237/106
PRODUCTS DIVISION					
Earnings (loss) from operations	$ 115	$ 30	$ (109)	$ 125	$ 105
Unusual items	—	—	(379)	—	—
Net earnings (loss)	$ 115	$ 30	$ (488)	$ 125	$ 105
Cash flow from operations	291	200	15	258	237
Expenditures on property, plant and equipment	189	109	287	221	209
Petroleum product sales (thousands of cubic metres per day)	41.3	43.0	41.3	42.7	44.4
Average sale price for petroleum products ($ per cubic metre)	252	255	278	317	274
Retail outlets at year end	2 220	2 630	3 150	3 205	3 295
Refinery crude capacity at year end (thousands of cubic metres per day)	45.1	57.6	57.6	54.2	54.2
Average refinery utilization (per cent) [4]	79	72	74	80	86
ICG PROPANE					
Revenue	330	304	328	362	
Propane sales (millions of litres)	1 213	1 215	1 234	1 245	

[1] *Certain reclassifications have been made to the figures previously reported to reflect subsequent changes in reporting presentation.*

[2] *Share prices are for trading on the Toronto Stock Exchange.*

[3] *Total shares traded on the Toronto, Montreal, Vancouver and Alberta stock exchanges.*

[4] *Average refinery utilization takes into account, where applicable, changes in refinery crude capacity that occurred during the year.*

QUARTERLY FINANCIAL AND STOCK TRADING INFORMATION

(UNAUDITED, STATED IN MILLIONS OF DOLLARS UNLESS OTHERWISE INDICATED)

	1993				1992			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
REVENUE								
Operating	$ 1 143	$ 1 063	$ 1 155	$ 1 146	$ 1 060	$ 1 097	$ 1 185	$ 1 209
Investment and other income	28	39	20	9	72	30	24	41
	1 171	1 102	1 175	1 155	1 132	1 127	1 209	1 250
EXPENSES								
Crude oil and product purchases	575	527	554	491	487	583	646	642
Producing, refining and marketing	337	310	333	374	354	293	324	336
General and administrative	55	58	53	70	61	62	56	62
Exploration	8	9	5	6	12	12	11	21
Depreciation, depletion and amortization	88	86	82	96	102	95	95	99
Taxes other than income taxes	12	19	17	17	14	19	16	18
Interest on long-term debt	17	17	18	20	35	32	29	21
Other interest	4	2	5	4	4	(11)	6	4
	1 096	1 028	1 067	1 078	1 069	1 085	1 183	1 203
UNUSUAL ITEMS	—	—	—	—	—	(66)	(55)	—
EARNINGS (LOSS) BEFORE INCOME TAXES	75	74	108	77	63	(24)	(29)	47
PROVISION FOR (RECOVERY OF) INCOME TAXES	35	43	53	41	31	(30)	27	20
NET EARNINGS (LOSS)	$ 40	$ 31	$ 55	$ 36	$ 32	$ 6	$ (56)	$ 27
CASH FLOW FROM OPERATIONS	$ 149	$ 141	$ 177	$ 163	$ 124	$ 120	$ 117	$ 156
SEGMENTED NET EARNINGS (LOSS)								
Resources	$ 30	$ 27	$ 37	$ 31	$ 28	$ 61	$ 27	$ 33
Products	25	23	40	27	14	(5)	7	14
Corporate and Other	(15)	(19)	(22)	(22)	(10)	(50)	(90)	(20)
	$ 40	$ 31	$ 55	$ 36	$ 32	$ 6	$ (56)	$ 27
SHARE INFORMATION (DOLLARS PER COMMON SHARE)								
Net earnings (loss)	0.16	0.13	0.22	0.15	0.15	0.03	(0.26)	0.12
Cash flow from operations	0.60	0.58	0.71	0.67	0.58	0.55	0.54	0.71
Dividends	0.0325	0.0325	0.0325	0.0325	0.0325	0.0325	0.0325	0.0325
Share price [1]								
- High	8¼	12½	13⅛	14	10⅞	9¼	10	9½
- Low	7¼	7⅝	9¾	11¼	8⅛	8¼	7⅞	7⅞
- Close (end of period)	7⅞	11⅞	12⅝	12	8¼	8¾	9½	8⅛
Shares traded (millions) [2]	36.0	22.8	14.8	10.1	7.8	5.4	7.2	6.6

[1] *Share prices are for trading on the Toronto Stock Exchange.*

[2] *Total shares traded on the Toronto, Montreal, Vancouver and Alberta stock exchanges.*

TRANSFER AGENT AND REGISTRAR

Petro-Canada's transfer agent and registrar is The R-M Trust Company. Share certificates may be transferred at R-M Trust's corporate trust offices in Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver. Questions relating to share certificates, dividends and estate settlements should be directed to R-M Trust's corporate trust offices in Calgary:

The R-M Trust Company
600 Dome Tower
333 – 7th Avenue S.W.
Calgary, Alberta, Canada T2P 2Z1
Telephone toll free (800) 387-0825

ANNUAL MEETING

The annual meeting of shareholders will be held at 11:00 a.m. local time on Tuesday, May 3, 1994, at:

Crystal Ballroom
Palliser Hotel
133 – 9th Avenue S.W.
Calgary, Alberta

STOCK TRADING SYMBOL

PCA

STOCK EXCHANGE LISTINGS

Toronto, Montreal, Vancouver, Alberta and Winnipeg.

DIVIDENDS

Petro-Canada's Board of Directors has adopted a policy of paying quarterly dividends of $0.0325 ($0.13 per annum) per common share. The Board reviews the policy from time to time in light of the Company's financial position, its financing requirements for growth and other factors. Dividends are normally paid on or about the first working day of the months of January, April, July and October. The record dates are normally set approximately four weeks ahead of the dividend payment date. Petro-Canada does not currently offer an automatic dividend reinvestment service. Dividends can be deposited directly to shareholders' bank accounts. If this service is desired, please contact the transfer agent and registrar, The R-M Trust Company.

INVESTOR RELATIONS AND SHAREHOLDER COMMUNICATIONS

Petro-Canada's Investor Relations staff may be contacted by writing to or calling:

Investor Relations
Petro-Canada
P.O. Box 2844
Calgary, Alberta, Canada T2P 3E3
Telephone (403) 296-4040
Fax (403) 296-3061

Investor Relations staff will be pleased to respond to shareholders' and investors' comments.

INFORMATION FOR SHAREHOLDERS OUTSIDE CANADA

Dividends and/or interest payments made to residents in countries with which Canada has a bilateral tax treaty are subject to Canadian non-resident withholding tax of 15 per cent. The majority of countries are in this category. There is no Canadian tax on gains from the sale of shares or debt instruments owned by non-residents not carrying on business in Canada. Estate taxes or succession duties are not levied by any level of government in Canada.

DUPLICATE REPORTS

We try to avoid duplicate mailings of annual reports and other shareholder materials, but shareholders with more than one unregistered account may receive duplicates because their names are on different brokers' lists. Registered shareholders with more than one account may contact the transfer agent and registrar to eliminate duplicate mailings.

INVESTOR RELATIONS INFORMATION SERVICE (IRIS) (403) 296-IRIS OR (403) 296-4747

This on-line information service provides financial reports and other company information in either English or French to individuals with access to a computer and modem. For information on how to use the service, please call (403) 296-4040.

BOARD OF DIRECTORS

A.E. BARROLL
Chairman of the Board
Petro-Canada
Calgary, Alberta

JAMES M. STANFORD [1]
President and Chief Executive Officer
Petro-Canada
Calgary, Alberta

H. REUBEN COHEN, O.C., Q.C. [2]
Barrister and Solicitor
Moncton, New Brunswick

GAIL COOK-BENNETT [2]
Executive Vice-President
Bennecon Ltd.
Etobicoke, Ontario

WILLIAM MCBURNEY ELLIOTT, Q.C. [1]
Counsel
MacPherson, Leslie & Tyerman
Barristers and Solicitors
Regina, Saskatchewan

CLAUDE FONTAINE, Q.C. [1,2]
Senior Partner
Ogilvy Renault
Barristers and Solicitors
Town of Mount Royal, Quebec

HON. WILLIAM H. JARVIS, P.C., Q.C. [1]
Lawyer
McCarthy Tétrault
Ottawa, Ontario

PATRICK J. KEENAN [1]
Chairman
Canada Development
Investment Corporation
Toronto, Ontario

THOMAS E. KIERANS [2]
President and Chief Executive Officer
C.D. Howe Institute
Toronto, Ontario

GUYLAINE SAUCIER, C.M., F.C.A. [2]
Corporate Director
Montreal, Quebec

WILLIAM W. SIEBENS [1]
President and Chief Executive Officer
Candor Investments Ltd.
Calgary, Alberta

[1] *Executive Committee member*
[2] *Audit Committee member*

SENIOR OFFICERS

A.E. BARROLL
Chairman of the Board

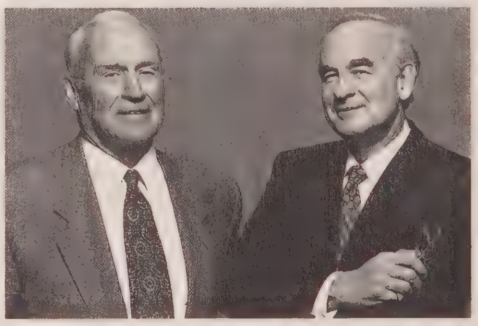
JAMES M. STANFORD
President and Chief Executive Officer

NORMAN F. MCINTYRE
President, Petro-Canada Resources

JAMES PANTELIDIS
President, Petro-Canada Products

WESLEY R. TWISS
Senior Vice-President and Chief Financial Officer

ROY C. LEGGE
Vice-President, Human Resources



Ed Barroll, Chairman of the Board, and Jim Stanford, President and Chief Executive Officer

CONVERSION FACTORS

To conform with common usage, imperial units of measurement are used in this report to describe exploration and production while metric units are used for refining and marketing. Dollars are Canadian unless otherwise stated.

1 cubic metre (liquids)	=	6.29 barrels
1 cubic metre (natural gas)	=	35.31 cubic feet
1 litre	=	0.22 imperial gallon
1 hectare	=	2.47 acres
1 tonne	=	0.984 ton (long)

ADDITIONAL PUBLICATIONS

The following publications are available on request from Investor Relations or Public and Government Affairs:

- Management's Discussion and Analysis of financial condition and results of operations, filed with Canadian securities regulators
- Statistical Supplement to the Annual Report
- Annual Information Form, filed with Canadian securities regulators
- Form 40-F, filed with the U.S. Securities and Exchange Commission
- Interim Reports, which are published about six weeks after the end of the first, second and third quarters
- Petro-Canada's Code of Business Conduct
- A brochure on Petro-Canada's environmental policy and performance (published in 1993)
- A general brochure on Petro-Canada's activities

Petro-Canada
P.O. Box 2844
Calgary, Alberta
Canada T2P 3E3
Telephone (403) 296-8000
Fax (403) 296-3030

INVESTOR AND ANALYST ENQUIRIES:
Investor Relations
(403) 296-4040

MEDIA ENQUIRIES:
Public and Government Affairs
(403) 296-8472

Publié également en français

DESIGN:
DAVE MASON & ASSOCIATES INC.

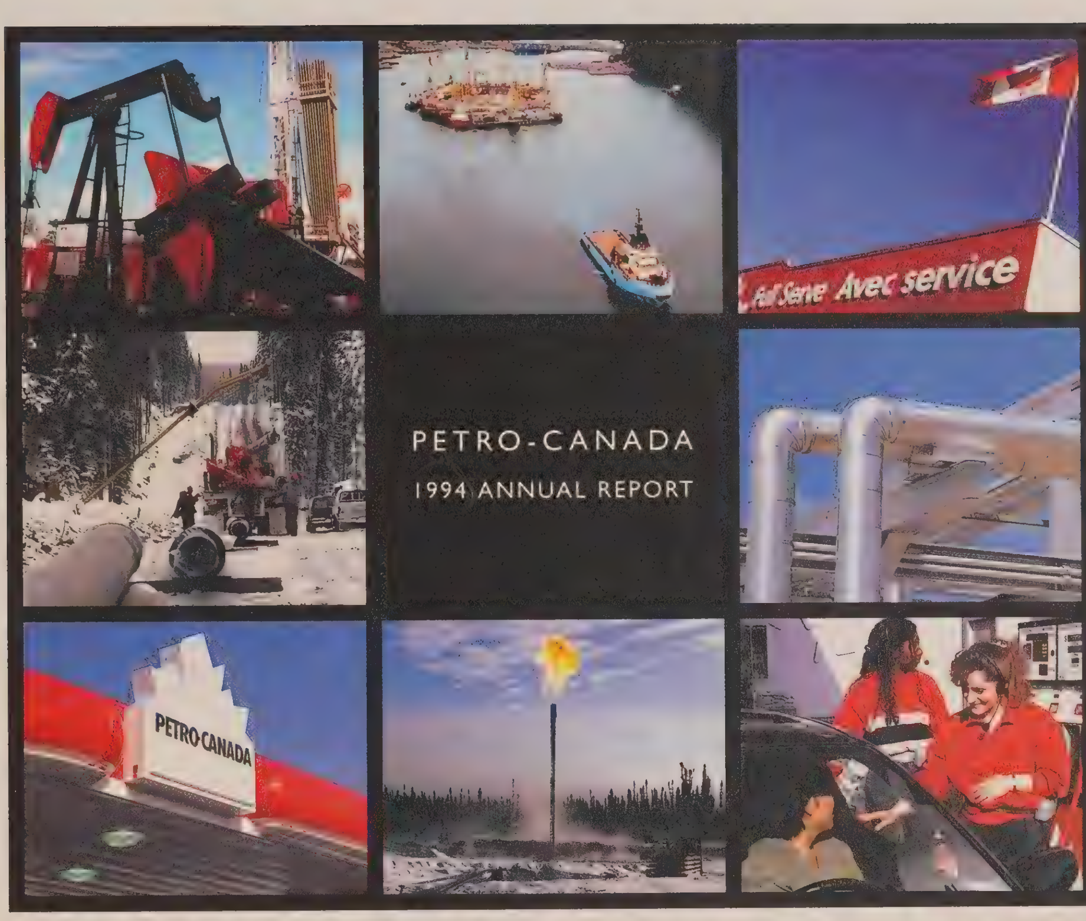
PHOTOGRAPHY:
JAMES LABONTE
MARC PIKE
AD VANTAGE PRODUCTIONS (P 12)
JOELLE OPELIK (P 19)

PRINTING:
H. MACDONALD PRINTING

PRINTED ON PAPER CONTAINING AT LEAST 50 PER CENT RECYCLED FIBRE, INCLUDING A MINIMUM OF 10 PER CENT POST-CONSUMER WASTE. INKS ARE BASED ON LINSEED OIL AND CONTAIN NO HEAVY METALS. THE PRINTING PROCESS WAS ALCOHOL-FREE. VOLATILE ORGANIC COMPOUNDS ASSOCIATED WITH PRINTING WERE REDUCED BY 50 TO 75 PER CENT FROM THE LEVELS WHICH WOULD HAVE BEEN PRODUCED USING TRADITIONAL INKS AND PROCESSES.

PRINTED IN CANADA

PETRO-CANADA
1994 ANNUAL REPORT



HIGHLIGHTS

HIGHLIGHTS	1994	1993	1992
FINANCIAL (MILLIONS OF DOLLARS, UNLESS OTHERWISE INDICATED)			
Earnings from operations	219	157	81
Net earnings	262	160	5
Cash flow from operations[1]	698	630	517
Per common share (dollars)			
Earnings from operations	0.89	0.64	0.37
Net earnings	1.06	0.65	0.02
Cash flow from operations[1]	2.83	2.56	2.38
Dividends paid[2]	0.1475	0.13	0.13
Expenditures on property, plant and equipment and exploration	700	608	456
Debt	1 106	1 052	954
Debt, net of cash	1 011	923	961
Debt to debt plus equity (per cent)	27.3	27.9	26.9
Return on capital employed (per cent)	6.8	4.8	1.4
Operating return on capital employed (per cent)	5.8	4.8	3.1
Cash flow return on capital employed (per cent)	16.3	15.7	12.5
OPERATING			
Crude oil and field natural gas liquids production, net before royalties (thousands of barrels per day)	73.3	79.8	79.8
Natural gas production, net before royalties, excluding injectants (millions of cubic feet per day)	540	562	507
Ethane and natural gas liquids production from straddle plants (thousands of barrels per day)	37	41	36
Proved oil and field natural gas liquids reserves, net before royalties (millions of barrels)	411	389	417
Proved natural gas reserves, net before royalties (trillions of cubic feet)	2.1	2.3	2.4
Refined product sales (thousands of cubic metres per day)	41.5	41.3	43.0
Average refinery utilization (per cent)	93	79	72

[1] *Cash flow from operations before changes in non-cash working capital items.*

[2] *In July, 1994, Petro-Canada increased its quarterly dividend to $0.05 per common share from $0.0325 per common share.*

CONTENTS

PETRO-CANADA ACHIEVED RECORD EARNINGS IN 1994. WE PLAN TO CONTINUE DELIVERING STRONG **PERFORMANCE** THROUGH STEADY IMPLEMENTATION OF OUR PROVEN STRATEGIES AND INCREASING EXPLOITATION OF OUR ATTRACTIVE **GROWTH** OPPORTUNITIES.

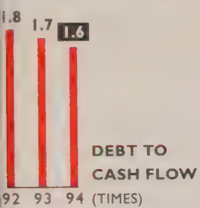
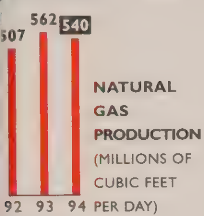
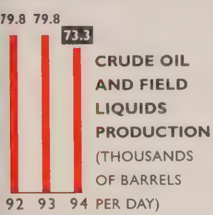
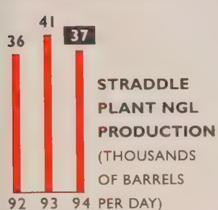
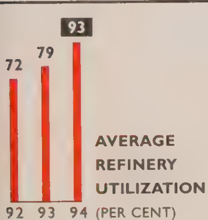
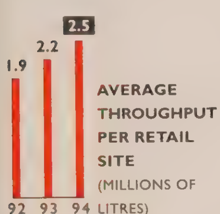
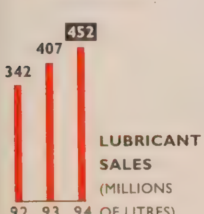
WE WILL CONTINUE TO BUILD VALUE FOR OUR SHAREHOLDERS BY:

- ADVANCING OUR COMPETITIVE POSITION AND PROFITABILITY
- ACTIVELY PURSUING THE ATTRACTIVE OPPORTUNITIES WE HAVE IDENTIFIED FOR PROFITABLE GROWTH
- MAINTAINING FINANCIAL STRENGTH AND FLEXIBILITY
- FURTHER REDUCING COSTS AND IMPROVING THE EFFECTIVENESS OF OUR ORGANIZATION
- CONTINUOUSLY OPTIMIZING OUR PORTFOLIO TO DELIVER BOTH SHORT- AND LONG-TERM VALUE CREATION

Petro-Canada is the largest Canadian-owned oil and gas company and a leader in the Canadian petroleum industry. The Company has two operating divisions. Petro-Canada Resources, the "upstream" business, explores for, produces and markets crude oil, natural gas and natural gas liquids. The "downstream" business, Petro-Canada Products, refines crude oil and distributes and markets petroleum products.

The common shares of Petro-Canada trade on all Canadian stock exchanges, under the symbol PCA.

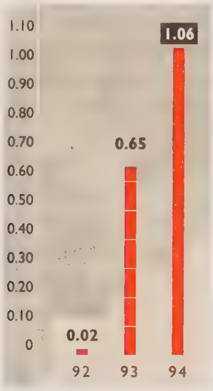
	BUSINESS DESCRIPTION	STRATEGY IN 1994
CORPORATE ACTIVITIES	□ Determines business and financial strategies □ Structures the portfolio of businesses for appropriate returns □ Manages and directs the Company's affairs □ Provides support services	□ Continue to improve profitability □ Maintain financial strength and flexibility □ Continue to fund capital investments from cash flow and proceeds from dispositions □ Manage risks effectively
RESOURCES DIVISION NATURAL GAS	□ Explores for, produces and markets natural gas □ Ranks 6th in Canadian gas sales – daily production of 540 million cubic feet is 4% of Canada's total	□ Intensify development of core gas reserves □ Increase exploration activity stepping out from existing fields □ Replace production capability divested with TroCana Resources □ Gain new operating efficiencies
WESTERN CANADA OIL	□ Explores for, produces and markets crude oil □ Ranks 6th in Canadian oil production with 73 300 barrels daily, about 3% of Canada's total □ Holds 12% interest in Syncrude oil sands project	□ Intensify development of core oil reserves □ Gain new operating efficiencies
FRONTIER CANADA AND INTERNATIONAL	□ Develops Canadian offshore petroleum and selected international opportunities □ Owns 30% of the oil which has been discovered off Canada's East Coast □ 25% participant in Hibernia; 49% interest in Terra Nova project	□ Continue with development of Hibernia oil field □ Pursue attractive development and exploration prospects in Algeria □ Make progress towards development of Terra Nova
NATURAL GAS LIQUIDS	□ Extracts natural gas liquids, including ethane, propane and butane, from the gas trunk line in a straddle plant at Empress, Alberta □ Markets natural gas liquids in North America	□ Integrate all NGL activities, including ICG Propane, within a single business unit □ Capture efficiencies from integration and evaluate business opportunities
PRODUCTS DIVISION REFINING	□ Converts crude oil into refined products, including gasoline, diesel, jet fuel and asphalt □ Provides 18% of Canada's refining capacity for domestic markets	□ Increase refinery utilization to 90% □ Improve operating and management processes to increase profitability
MARKETING	□ Markets refined products and services through a nation-wide network of wholesale and retail outlets □ Canada's second-largest marketer, with a 17% share of the refined products market	□ Continue wholesale and retail rationalization □ Increase throughput per site □ Pursue revenue enhancements at each site
LUBRICANTS	□ Manufactures and markets lubricants □ HydroTreating process yields exceptionally pure base oils	□ Build profitability, production and sales □ Gain efficiencies through implementing integrated business system

	1994 HIGHLIGHTS	PLANS FOR 1995
	□ Strong growth in earnings and cash flow □ No new debt issued; growing investments funded from cash flow and asset sales □ Positive cash balances throughout 1994 □ Sold TroCana Resources (upstream non-core assets)	□ Continue to build shareholder value □ Hold debt within target range, below two times cash flow □ Continue to manage risks effectively
	□ Brought on stream 219 billion cubic feet of previously undeveloped reserves □ Discovered 136 billion cubic feet of new reserves □ Replaced TroCana production capability	□ Increase investment, with greater emphasis on replacement of reserves □ Continue to bring undeveloped reserves on stream and speed development to generate early cash flow □ Hold unit costs to 1994 level and gain new operating efficiencies
	□ Intensified exploitation of core fields □ Replaced five million barrels of reserves □ Further reduced costs per unit of production □ Record production at Syncrude	□ Maximize cash flow generation with continued aggressive development □ Continue focused exploration □ Take advantage of market opportunities to acquire assets in core areas
HIBERNIA PROJECT COMPLETION AS OF JANUARY 1995 GRAVITY BASE STRUCTURE ■ 53 PER CENT COMPLETE TOPSIDES MODULES ■ 85 PER CENT COMPLETE	□ Completed dry dock work on Hibernia platform; towed out to in-shore deep-water site, where construction continues □ First Algeria well yielded attractive oil project and gas discovery	□ Continue platform construction; assemble topsides modules at Newfoundland site □ Order tankers to transport Hibernia production □ Build production facilities for Algeria oil field
	□ Integrated ICG Propane operations into NGL business unit □ Opened U.S. marketing office for NGLs in Tulsa, Oklahoma	□ Strengthen retail efficiency and focus □ Selectively grow trading business □ Improve Empress production volumes
	□ Achieved 93% utilization □ Identified potential efficiency gains through re-engineering of business processes	□ Implement re-engineering plans □ Maintain reliability and high capacity utilization
	□ Completed the rationalization program announced in 1992 □ Attained 1994 retail throughput target of 2.5 million litres per site □ Sharply increased non-petroleum revenue	□ Further increase average retail throughput □ Deliver consistently superior customer service □ Re-engineer business processes and information systems
	□ Achieved record levels of production and sales □ Identified profitable growth opportunity	□ Begin construction on plant expansion to double capacity by late 1996

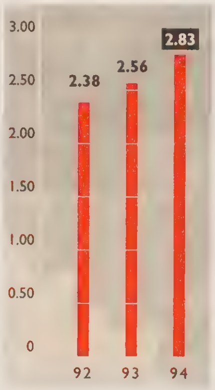
Petro-Canada and its employees have achieved the best financial results in our history. We did so by steadily implementing our financial and operating strategies to deliver performance and value growth for our shareholders.

RECORD EARNINGS ACHIEVED

Net earnings reached a record $262 million ($1.06 per share), up $102 million from 1993. Cash flow was $698 million ($2.83 per share), $68 million higher than last year. We issued no new debt, funding investments from cash flow and managing our finances conservatively. A dividend increase announced in July recognized Petro-Canada's financial strength and confidence in our future.



EARNINGS PER SHARE (DOLLARS)



CASH FLOW PER SHARE (DOLLARS)

TRANSITION TO PROFITABLE GROWTH

Increasingly, Petro-Canada is driving for future growth. Our turnaround is achieved. Since 1991, we have successfully rationalized, reduced debt by half, downsized and cut costs. A track record of improving results is established. With stronger cash flow, we can direct more investment towards attractive growth opportunities.

We are investing in Western Canada gas, with increasing exploration to replace reserves. We expect demand for gas to continue growing and prices to strengthen in the medium term. We had an oil find in Algeria in 1994, with estimated reserves of 43 million barrels, and expect to bring it on stream by early 1996. Hibernia is a growth opportunity that will soon add 31 000 barrels a day to our light oil production and more than 150 million barrels to our reserves. And we are expanding our lubricants plant to become the low-cost global competitor in high-margin markets.

We will direct about 60 per cent of our 1995 capital program to value creation in these four key growth areas. Total investment for growth will likely exceed $2 billion over the next five years.

1994 OBJECTIVES MET

In last year's Annual Report, we identified five objectives for 1994. The first was to continue improving our financial results, and we have done so. The second was to pursue our best opportunities to build profitability and value. We accelerated our investment during the year, targeting growth opportunities in Western Canada gas, offshore and international light oil development and downstream reliability and efficiency improvements.

Our third objective was to continue rebalancing our asset base to provide a strong mix of growth opportunities. We sold our non-core oil and gas properties, targeted near-term gas prospects and invested in a medium-term oil project in Algeria. In the downstream, we completed the rationalization of our marketing network and positioned our lubricants business for growth.

The final two objectives were financial, and both were achieved. We funded our investments from cash flow, and maintained a strong balance sheet.

PERFORMANCE DRIVE WILL CONTINUE

We are determined to continue improving our performance, with a medium-term goal of consistently earning returns that equal and then exceed the cost of capital. Our successful strategies, applied to an excellent asset base by our energetic, committed and highly skilled employees, will deliver that performance.

Continued aggressive cost management is imperative. All parts of the Company are drawing on our employees' ingenuity as we improve our business processes to gain efficiency with a lower cost structure.

SHARES REMAIN UNDERVALUED

Despite rising earnings, strong growth opportunities and a steady stream of positive analyst reports, our shares remain undervalued.

Two key factors seem to be at work, according to financial analysts. One is the continued Federal Government ownership of 70 per cent of our shares. In the Budget Speech on February 27, 1995, the Government confirmed its intention to sell its shares when market conditions are favourable. Your Board and management strongly support the Government in its intent to divest.

The other factor is investor reluctance to assign value to our future production from Hibernia and concerns relating to the cost overrun and delay announced last spring. But Hibernia production – and cash flow – is less than three years away, and drawing nearer every day. We believe we have resolved the problems which led to the overrun and delay. The project is keeping to its revised schedule and budget, and we estimate it will yield a satisfactory rate of return for Petro-Canada.

The success of Hibernia will pave the way for other East Coast oil developments, beginning with Terra Nova, where Petro-Canada has a 49 per cent interest in reserves estimated at 400 million barrels.

STRONG POTENTIAL FOR THE FUTURE

Petro-Canada is moving deliberately to exploit the best of its growth opportunities. We intend to make Petro-Canada the dominant Canadian player in both the upstream and the downstream sectors of our industry. We are confident of our ability to continue creating value for our shareholders and delivering improved levels of performance that will make us all proud.

A.E. BARROLL
Chairman of the Board

JAMES M. STANFORD
President and Chief Executive Officer

A NOTE OF THANKS

Three members of our Board of Directors are stepping down this year. On behalf of my fellow Board members and management, I would like to convey our sincere thanks for their guidance and their service to our Company.

Bill Elliott, a director since 1984, has made a sustained contribution to the governance of Petro-Canada, as has Reuben Cohen, a director since 1988. Ed Barroll has been a director since 1984 and was elected Chairman of the Board in February 1992, shortly after I was appointed Chief Executive Officer. Ed has played an important role in the evolution of Petro-Canada and we owe him a debt of gratitude.

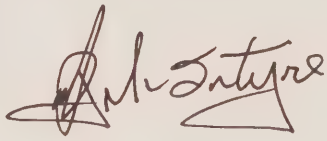
JAMES M. STANFORD
President and Chief Executive Officer

As a result of excellent work by employees, 1994 saw continued performance improvement from current operations and the beginning of the implementation of our growth strategy.

In the core Western Canada business, we intensified exploitation to enhance cash flow, and made solid progress in replacing the production capacity sold with the non-core, high-cost assets. For the third consecutive year, a sustained focus on key value drivers resulted in increased production from core assets and reduced unit cash costs.

Growth investment was targeted to the most promising opportunities: natural gas in Western Canada and light oil off Canada's East Coast and in Algeria. Exploration yielded solid results in Western Canada, and we had a substantial oil find in Algeria. The Hibernia offshore oil development passed important milestones in 1994, and is now less than three years from production. When fully on stream, Hibernia will provide 31 000 barrels per day to Petro-Canada.

Increasingly, the Resources division is investing for growth. Our skilled employees will leverage our strong cash-generating asset base and our solid inventory of opportunities to deliver that growth.



NORM McINTYRE
President, Petro-Canada Resources

RESOURCES DIVISION KEY RESULTS	**1994**	1993[1,2]	1992[1,2]
FINANCIAL (MILLIONS OF DOLLARS)			
Earnings from operations	153	114	119
Gains on asset sales	19	1	24
Gain on sale of TroCana Resources	21	—	—
Net earnings	193	115	143
Cash flow from operations[3]	448	376	391
OPERATING			
Crude oil and field natural gas liquids production, net before royalties (thousands of barrels per day)	73.3	79.8	79.8
Natural gas production, net before royalties, excluding injectants (millions of cubic feet per day)	540	562	507
Ethane and natural gas liquids production from straddle plants (thousands of barrels per day)	37	41	36

[1] *Restated to include ICG Propane.*

[2] *Volumes for 1992 and 1993 include TroCana production, which in 1993 averaged 6 700 barrels of oil and liquids and 36 million cubic feet of natural gas per day.*

[3] *Cash flow from operations before changes in non-cash working capital items.*

DRILLING ADDS NEW RESERVES

Ranking among the top 10 drillers in Western Canada for the second year in a row, the Company participated in 322 wells in 1994, of which 42 were exploratory. Results included 160 gross (89 net) gas and 128 gross (89 net) oil wells for an overall success rate of 89 per cent. In addition, a successful well was drilled in Algeria.

Most drilling aimed to generate early cash flow from existing assets. Development brought on stream previously undeveloped reserves totalling 219 billion cubic feet of natural gas and nine million barrels of oil. Most exploration was based on a concentric approach, moving outward from the bases of infrastructure and knowledge in core producing areas. Discoveries, extensions and improved recovery added 136 billion cubic feet of natural gas and 5.2 million barrels of oil and liquids.

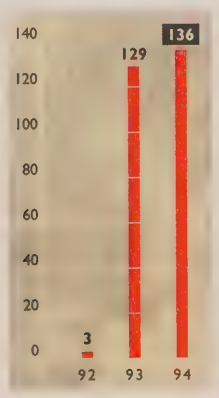
To provide future growth opportunities, Petro-Canada is increasing investment in exploration, while reducing risk by focusing on theatres in which it has substantial operating experience and expertise.

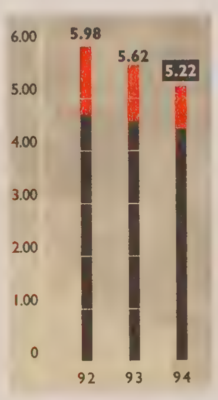
GAS PRODUCTION GROWS TO REPLACE TROCANA

As of January 1, 1994, Petro-Canada divested the non-core properties it had grouped in TroCana Resources, which had daily production in 1993 of about 6 700 barrels of oil and 36 million cubic feet of gas. Replacing these volumes was an important near-term priority, and a portion of the proceeds from the sale was invested in additional natural gas development and exploration.

Total natural gas production averaged 540 million cubic feet per day, four per cent below 1993, as production capability divested at the beginning of 1994 was replaced progressively over the year. Production capability at year end was about 600 million cubic feet per day, slightly higher than at the end of 1993. New discoveries more than replaced the gas reserves sold with TroCana.

GROWING GAS RESERVE ADDITIONS
(BILLIONS OF CUBIC FEET)
Natural gas reserves added by discoveries, extensions and improved recovery.





OPERATING AND OVERHEAD COSTS REDUCED
(DOLLARS PER BARREL OF OIL EQUIVALENT)
OPERATING COSTS
GENERAL AND ADMINISTRATIVE COSTS
Per-unit producing costs per barrel of oil equivalent for conventional Western Canada production.

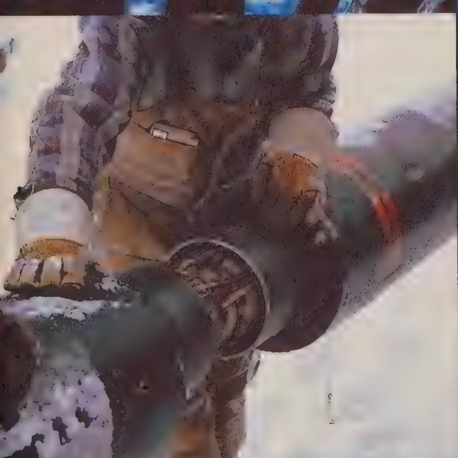
COST MANAGEMENT REMAINS A PRIORITY

The Resources division continued to reduce producing costs during 1994, cutting average costs per conventional barrel of oil equivalent to $5.22 from $5.62 in 1993. Per-unit costs are down 22 per cent from a peak of $6.71 in 1991.

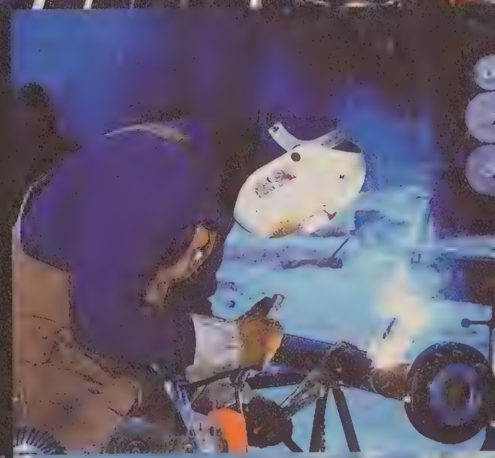
Gas test flare at Tommy Lakes in northeastern British Columbia. Following promising well results early in 1994, Petro-Canada moved quickly to add acreage, secure pipeline access, drill six development wells and build processing facilities. By the end of 1994, production had reached seven million cubic feet per day. Costs are kept low by using remote sensing technology to operate the field from Fort St. John, 200 kilometres to the south. Petro-Canada will participate in at least 19 more wells in 1995 in Tommy Lakes.

PETRO-CANADA'S INVESTMENT IN CONVENTIONAL EXPLORATION, DEVELOPMENT AND ACQUISITIONS OF STRATEGIC PROPERTIES TOTALLED $246 MILLION IN 1994 AND IS PLANNED TO REACH $340 MILLION IN 1995.

adding value



NATURAL GAS IS A KEY GROWTH AREA. IN 1994, PETRO-CANADA ADDED 136 BILLION CUBIC FEET OF NEW PROVED RESERVES AND BROUGHT ON STREAM 219 BILLION CUBIC FEET OF PREVIOUSLY UNDEVELOPED RESERVES.



HORIZONTAL DRILLING BOOSTS GAS PRODUCTION

Petro-Canada is an industry leader in successfully applying horizontal drilling to natural gas fields. When appropriate targets are selected using advanced geological, geophysical and reservoir engineering techniques, these wells – deviated to enter the formation horizontally – can be much more productive than vertical wells, as there is greater contact with the producing zone.

Horizontal drilling in 1994 significantly increased production at Jedney, Buick Creek, Yoyo and North Bubbles in British Columbia and added new gas and field liquid reserves equivalent to nearly 36 billion cubic feet. Finding and development costs, at 45 cents per thousand cubic feet, were well below the industry average for gas reserve additions. The Company will apply this technology to additional locations in 1995.

RISING NATURAL GAS PRODUCTION FROM HORIZONTAL WELLS
(MILLIONS OF CUBIC FEET PER DAY)
1993 1994

Accelerated application of horizontal drilling technology is boosting production of natural gas.

CORE LIQUIDS PRODUCTION MAINTAINED

Crude oil and liquids production averaged 73 300 barrels per day, maintaining core production. TroCana liquids production was not replaced as preference was given to gas investment.

Infill drilling and a waterflood expansion at Valhalla in northern Alberta increased daily production to 7 530 barrels from 6 250 barrels in 1993 and added 7.7 million barrels of developed reserves. Operating costs were cut to $3.10 a barrel, the lowest of all Petro-Canada's oil properties. The drilling and waterflood program will continue in 1995.

The Company's most active oil exploration play, at Evi in north-central Alberta, saw nine successful wells, including three of the four most prolific drilled in Western Canada in 1994. Following the 1993 discovery, production rose to more than 4 000 barrels a day by December 1994. The Company has doubled its prospective acreage in the area for further exploration in 1995.

Two Alberta producing properties purchased late in 1994 have significant upside potential, including horizontal drilling opportunities. The properties at Neutral Hills and Pembina, both adjacent to core Petro-Canada fields, add more than 1 300 barrels of oil per day.

A technical review of the Golden Lake heavy oil field in Saskatchewan confirmed that the waterflood has not been successful. Reserves were written down by 22 million barrels. The asset team had improved primary production to 2 850 barrels a day at year-end, 30 per cent above the pre-waterflood level, with further gains expected in 1995.

OIL SANDS PRODUCTION SETS RECORD

The Syncrude oil sands project, in which Petro-Canada has a 12 per cent interest, broke production records again in 1994. Petro-Canada's share of average daily production of synthetic crude oil was up four per cent at 22 900 barrels. The Company's reserves rose by 65 million barrels as a result of the extension of Syncrude's operating permit to the year 2025. Syncrude reduced operating costs to $15.17 per barrel, excluding provisions for workforce reduction, compared with $15.89 in 1993.

GAINS FROM NATURAL GAS MARKETING

In 1993, Petro-Canada established a strong marketing capability to capture opportunities in the evolving commodity market for natural gas. The substantial benefits in 1994 included higher prices, hedging gains, better contract terms and profits from brokering third-party gas. By December 31, 1994, traders had locked in prices above $2.00 per thousand cubic feet for about half of net 1995 production. The Company also negotiated increased pipeline space to secure additional access to higher-netback U.S. markets. About half of 1995 production will be exported.

A key Hibernia project milestone was passed in November 1994: tow-out of the gravity base structure to its deep-water construction site.

HIBERNIA CONSTRUCTION WELL ADVANCED

Production from the Hibernia oil field off Newfoundland is now less than three years away, with the first oil expected at the end of 1997 or early 1998. Petro-Canada's 25 per cent interest will provide 31 000 barrels per day at peak production and will more than double its light oil reserves.

In the spring of 1994, a project review determined construction of the gravity base structure (GBS) had fallen behind schedule, while overruns had added more than a billion dollars to pre-production cost estimates. The Hibernia consortium took steps to minimize risks of further cost revisions or delays, including bringing in new construction management contractors for the GBS, improving control systems and introducing concrete slipforming, which are speeding up construction.

Since these changes, the project has remained within the revised budget and schedule. Given its strong cash flow, Petro-Canada expects no difficulty in funding its share of the additional costs, about $290 million. The Company remains confident that Hibernia will generate acceptable returns.

February 1995: installing the first deck for the utility shaft on the Hibernia base structure. Construction is proceeding well following the November tow-out to a deep-water construction site. The use of slipforming techniques for concrete pouring is speeding progress.

Construction will continue at the deep-water site until the base is 111 metres high. Two years of construction remain before the completed production platform will be towed to the Hibernia site, 315 kilometres off Newfoundland.

CONSTRUCTION OF THE GRAVITY BASE STRUCTURE FOR THE HIBERNIA PRODUCTION SYSTEM IS NOW ON TRACK WITHIN ITS REVISED BUDGET AND SCHEDULE, AFTER ACTIONS WERE TAKEN IN 1994 TO ADDRESS A DELAY AND COST OVERRUN.

THE TOPSIDES MODULES WERE 85 PER CENT COMPLETE BY JANUARY 1995. THEY WILL BE ASSEMBLED IN NEWFOUNDLAND BEGINNING IN 1995 AND WILL BE JOINED TO THE BASE STRUCTURE IN 1997.

Petro-Canada is developing an oil field 1 000 kilometres southeast of Algiers. First production is expected by early 1996.

ALGERIA DRILLING YIELDS OIL AND GAS

Alone among Canadian integrated oil companies, Petro-Canada is developing international production. Current activity is focused on a single high-potential development and exploration project in Algeria. Petro-Canada is the operator under a production sharing agreement with the Algerian state oil company.

In 1994, the first Algeria well yielded attractive oil reserves and a gas discovery. The oil zone tested 5 650 barrels per day from 15 metres of net pay, with reserves estimated at 43 million barrels. Petro-Canada's development plan has been approved and it expects to receive an exploitation permit and begin production by early 1996. Quick payout is expected.

The two million acre block is 1 000 kilometres southeast of Algiers, in an active producing area with highly developed pipeline infrastructure. Petro-Canada has the right to explore for new prospects and to develop earlier discoveries. Further wells will be drilled early in 1996.

Petro-Canada's first well in Algeria yielded attractive oil reserves and a natural gas discovery.

INTEGRATION AND RELIABILITY GAINS IN NGLS

The management of ICG Propane operations was integrated with the upstream natural gas liquids business in 1994, resulting in cost savings and more profitable wholesale marketing. ICG Propane earnings improved significantly. The NGL business unit has opened an office in Tulsa, Oklahoma, to expand its marketing capability in the United States market.

Ethane and NGL production declined to 36 800 barrels a day from 40 800 in 1993, primarily due to scheduled maintenance to install process improvements at the Empress straddle plant. These process improvements enabled record production in December 1994.

The Products division delivered its best earnings ever in 1994 thanks to our employees' commitment to success.

We ran our refineries at close to full utilization, following reconfigurations in 1993 to eliminate excess capacity. In marketing, we raised sales per retail site well above industry averages following a one-third reduction in our network since 1991.

We are building on our gains, keeping a sharp focus on the key value drivers in our business. We are re-engineering our business processes and systems to gain further efficiencies and improve our competitive position through operational excellence.

We are pursuing growth, particularly through a lubricants plant expansion that will make us the low-cost global competitor in specialty lubricants which command high margins in growing markets. We expect continuing performance gains in refining and marketing as we position ourselves as a low-cost, innovative, industry leader.

JIM PANTELIDIS
President, Petro-Canada Products

PRODUCTS DIVISION KEY RESULTS	1994	1993	1992
FINANCIAL (MILLIONS OF DOLLARS)			
Earnings from operations	136	112	27
Gains on asset sales	2	2	1
Net earnings	138	114	28
Cash flow from operations [1]	294	291	200
OPERATING			
Petroleum product sales (thousands of cubic metres per day)	41.5	41.3	43.0
Refinery crude capacity at year end (thousands of cubic metres per day)	45.1	45.1	57.6
Average refinery utilization (per cent)	93	79	72

[1] *Cash flow from operations before changes in non-cash working capital items.*

REFINERIES ACHIEVE HIGH UTILIZATION

Petro-Canada's refineries achieved excellent performance following the successful implementation of reconfigurations and capacity reduction in 1993.

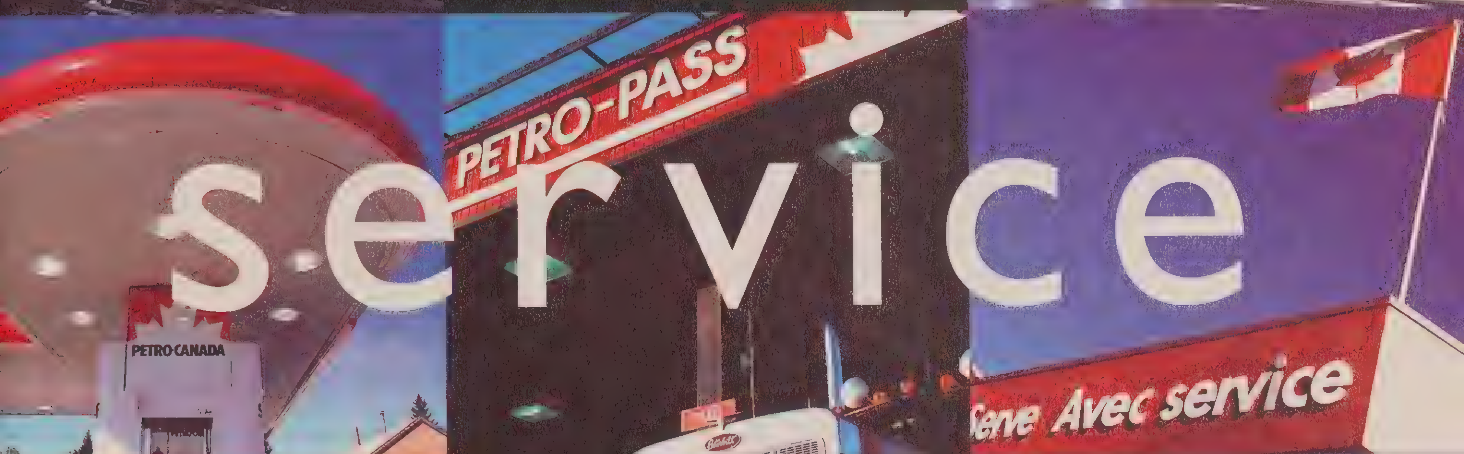
Capacity utilization was 93 per cent, up sharply from 79 per cent in 1993. With improved reliability, the refineries ran essentially at full capacity allowing for normal maintenance shutdowns. A large proportion of refinery costs are fixed, so increasing utilization improves competitiveness by reducing costs per unit of product. The Company expects to maintain high levels of utilization and reliability.

The reconfigurations built on existing strengths to give Petro-Canada the flexibility to use a higher proportion of heavy crude oils in its feedstock mix. In 1994, these lower-cost

A bright new customer-focused retail outlet in Calgary. The attractive new design offers greater convenience and security for customers. Easy access to individual pumps reduces line-ups and speeds service. Bright lighting and a clear view from the attendant to each pump increases customer safety. Innovative design and materials make the outlets efficient to operate. After successful tests of prototypes in 1994, Petro-Canada will convert outlets in Victoria, London and Halifax to the new design during 1995.

PETRO-CANADA OPERATED ITS REFINERIES AT CLOSE TO FULL CAPACITY IN 1994, AND EXPECTS TO MAINTAIN HIGH UTILIZATION RATES. HIGH UTILIZATION REDUCES COSTS PER UNIT OF PRODUCTION.

service

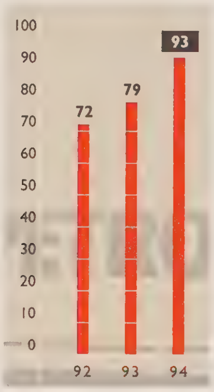


RATIONALIZATION OF THE RETAIL NETWORK HAS BOOSTED EFFICIENCY. GASOLINE SALES PER OUTLET HAVE RISEN SHARPLY, AS PETRO-CANADA RETAINED ALMOST ALL ITS VOLUMES WHILE CLOSING A THIRD OF ITS NETWORK.

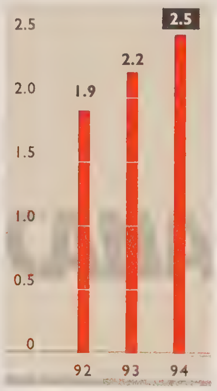
crudes made up close to 30 per cent of total feedstock. Petro-Canada's flexibility positions it to continually optimize feedstock costs by taking advantage of market opportunities arising from changing prices for various types of crude oil.

Refining and supply personnel conducted a major process re-engineering study in 1994, with participation from management and unionized operating personnel. This work identified a wide range of improvements in operations, maintenance and supply.

Some early benefits were gained in 1994, while further changes will be implemented in 1995 and 1996. These changes are expected to add significant value through revenue enhancements and reductions in the cost of product and operating expenses.



HIGHER AVERAGE REFINERY UTILIZATION
(PER CENT)
Greater utilization of refining capacity reduces costs per unit of product.



RISING AVERAGE THROUGHPUT PER RETAIL SITE
(MILLIONS OF LITRES)
Sales per retail site continue to grow in a smaller, more efficient network.

STRONGER RESULTS FROM RETAIL ASSETS

The division is improving the performance of its nation-wide retail assets by increasing average sales per outlet for both fuels and other merchandise and services. It achieved its 1994 gasoline throughput target of 2.5 million litres per site, significantly above the most recent available industry average of 1.8 million litres per site in 1993. Further gains are expected.

The network rationalization program announced in 1992 is complete. A net reduction of 191 sites in 1994 brought the retail network to 2 029 outlets at year end. The Company expects to maintain its network at about 2 000 sites. Petro-Canada has retained almost all its retail volumes despite a 35 per cent cutback in the number of outlets since 1991.

Costs per unit of sales were down eight per cent from 1993 as a result of rationalization, higher sales per site and overhead expense reductions. These gains helped offset a difficult business environment, in which intense retail price competition held margins down, particularly in Central and Eastern Canada.

Innovative merchandising led to rising sales of higher-margin non-petroleum products, such as convenience store items and consumer staples. The retail non-petroleum contribution increased by 20 per cent in 1994, and significant growth is expected in 1995.

WHOLESALE PROFITABILITY RISES

Wholesale volumes rose due to increased economic activity and customer-focused marketing. More than 60 per cent of Petro-Canada's volumes are sold wholesale to commercial and industrial customers through bulk plants, Petro-Pass cardlocks for truckers and direct sales. Sales increased for major wholesale products including furnace and home heating oil, diesel, jet fuel and asphalt.

Cost reductions and efficiency gains from rationalization and the integration of wholesale and distribution functions enabled higher profitability. The 1992 rationalization plan for the wholesale bulk plant network was complete by the end of 1994, with 53 less-profitable operations closed during the year. Since 1991, the Company has closed about 40 per cent of its wholesale operations, creating an efficient coast-to-coast network of about 200 operations.

The division launched a revitalization of its Petro-Pass commercial cardlock network to better serve truckers across Canada and build business in this fast-growing segment. Upgrading will continue in 1995.

A continuing shift of business responsibilities from the Company to wholesale associates is reducing overall costs and working capital in the wholesale business while improving service to local customers.

A revitalized Petro-Pass cardlock network will build business in the expanding trucking market.

Expansion of the lubricants plant in Mississauga, Ontario, will double production capacity in 1996.

GROWTH OPPORTUNITY IN LUBRICANTS

Petro-Canada's lubricants business unit has made impressive gains in production, sales and earnings over the past several years. It set new records in 1994, with sales up 11 per cent from 1993 at 452 million litres. The Company is developing an attractive growth opportunity in lubricants. In December, Petro-Canada committed $135 million over two years for a plant expansion which will double its lubricants production capacity and contribute significantly to earnings.

The expansion will build on the Company's existing technological advantage in producing high-purity base oils and specialty products with its HydroTreating process. With new technology and process equipment, Petro-Canada will become the largest base oil producer in Canada and the fifth largest in the world. It will be uniquely positioned among Canadian companies to pursue attractive and growing markets for white oils and high viscosity index oils. When the expansion is on stream in late 1996, Petro-Canada expects to be the world's lowest-cost producer of high-value-added specialty lubricants which command high margins. Petro-Canada expects significant growth in export sales, which already account for one third of its total lubricants production.

Petro-Canada recognizes its business can only prosper with the support of the communities in which it operates. As a responsible corporate citizen, Petro-Canada plans its business activities to enhance and safeguard the safety, health and well-being of its employees, neighbours, customers and the environment. In 1994, Petro-Canada invested $141 million in activities associated with environmental protection and community contributions.

REFINERY WASTE REDUCED

On an annual basis, the Montreal refinery has eliminated 3.9 tonnes of heavy metals, chrome and zinc from its cooling system and plant discharge, reduced water consumption by 200 million litres and cut industrial waste by five tonnes. Reducing waste saved the refinery $1.4 million in disposal costs in 1994.

Drawing a water sample for testing at the Montreal refinery, which has removed metals from the plant discharge and reduced water consumption.

The Peregrine Falcon restoration project in Alberta is one of 550 organizations across Canada receiving support from Petro-Canada's community contributions program.

COMMUNITIES GET SUPPORT

Petro-Canada supports the communities in which it does business through financial contributions and the voluntary work of its employees. In 1994, Petro-Canada invested $2.2 million in communities across the country, providing support to 550 non-profit organizations. Among the beneficiaries were the Vancouver International Comedy Festival, the Peregrine Falcon restoration project in Alberta, Princess Margaret Cancer Hospital in Toronto, Ontario's Stratford Festival, an industrial environmental research chair in partnership with the Université de Montréal, the École des Hautes Études Commerciales and the École Polytechnique, the St. Lawrence River beluga whale recovery program with the World Wildlife Fund, and the Newfoundland Symphony Orchestra.

Employees and the Company contributed nearly $900 000 to last year's United Way campaigns across Canada, while 154 charitable groups received grants in support of employees' volunteer work.

TRAINING INCREASES SPILL READINESS

Although Petro-Canada remains firmly focused on spill prevention, it continually trains and exercises its response teams to act immediately and effectively in the event of an accident. In 1994, Petro-Canada took a leadership role in creating a national industry-based response organization, fully prepared to contain and recover a marine oil spill.

LOSS MANAGEMENT PROCESS IMPROVED

In 1994, Petro-Canada further enhanced its environment, health and safety processes by implementing the Total Loss Management (TLM) system throughout the Company.

TLM is an effective and cost-efficient means of managing health, safety, environment, reliability, risk assessment and loss prevention. The application of this consistent strategy in all operations should further reduce the occurrence of incidents which might adversely affect employee health and safety, the environment and the Company's financial success.

LOW-SULPHUR DIESEL INTRODUCED

Achieving environmental objectives while meeting business needs was the result of Petro-Canada's 1994 voluntary compliance with federal government guidelines for phasing in low-sulphur diesel fuel. This fuel reduces particulate emissions in all diesel engines and is now required for new model engines in Canada. A phased roll-out began in October 1994 and will be completed as market demand justifies the added capital investment.

ADDRESSING CLIMATE CHANGE

Petro-Canada has been working nationally and provincially with industry associations, environmental groups and government agencies to identify economically viable ways to reduce emissions from petroleum industry activities which may contribute to the greenhouse effect. The Company has accepted an industry-wide federal government challenge to voluntarily reduce greenhouse gas emissions. An in-house emissions management working group is evaluating potential initiatives.

COST-EFFECTIVE RESTORATION OF SITES

Petro-Canada is leading the industry in new approaches to restoring disused sites to maximize the benefit from each environmental clean-up dollar spent. After successfully advocating a more balanced approach to setting clean-up standards, the Company completed the remediation of 140 000 tonnes of soil from the former BP refinery site at Ville d'Anjou near Montreal at a savings of more than $17 million compared with traditional methods. The site is now fully restored for commercial use. Petro-Canada's innovative approach is based on risk management principles. It has already led to changes in Alberta regulations and is being considered by industry and government agencies in Canada and the United States.

OPERATIONS REVIEWS IMPROVED

For many years, Petro-Canada has been an industry leader in proactively auditing facilities to improve safety and minimize environmental impact. Changes in 1994 made audits more efficient through increased self-assessment and pre-audit planning, resulting in time savings and more focused recommendations.

Management's Discussion and Analysis is printed as a separate document, which is included in the mailing to shareholders and is also available on request (see inside back cover). The shorter Financial Review presented here describes Petro-Canada's improved financial performance and management's outlook for the future.

In 1994, Petro-Canada maintained its financial strategies, which are designed to improve the Company's results. We continued to focus on our medium-term objective of attaining returns that meet and then exceed our cost of capital, which is equivalent to a return on capital employed of 10.5 per cent or better. We made significant progress toward achieving this objective in 1994 and will continue to strive towards this target.

We continued to fund capital expenditures from cash flow, issuing no new debt in 1994. At year-end 1994, our balance sheet was very strong. Our ratio of debt to cash flow was below two, and our debt to debt plus equity ratio was less than the target maximum of 30 per cent. We intend to maintain these ratios within these targets as we go forward.

Looking ahead, maintaining our financial strength and flexibility will remain a high priority as we accelerate the development of our attractive near-term and longer-term opportunities for profitable growth.

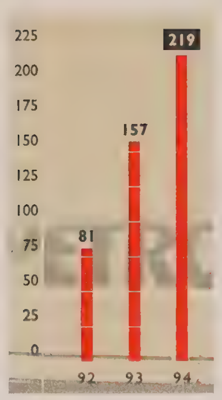
WESLEY TWISS
Senior Vice-President and
Chief Financial Officer

KEY FINANCIAL RESULTS	1994	1993[1]	1992[1]	CHANGE (1994 vs. 1993)
CONSOLIDATED				
(MILLIONS OF DOLLARS, UNLESS OTHERWISE NOTED)				
Earnings from operations	219	157	81	+62
Unusual items and gains on asset sales	43	3	(76)	+40
Net earnings	262	160	5	+102
Per share (dollars)	1.06	0.65	0.02	+0.41
Cash flow from operations[2]	698	630	517	+68
Per share (dollars)	2.83	2.56	2.38	+0.27
Return on capital employed (per cent)	6.8	4.8	1.4	+2.0
Operating return on capital employed (per cent)	5.8	4.8	3.1	+1.0
Cash flow return on capital employed (per cent)	16.3	15.7	12.5	+0.6
Expenditures on property, plant and equipment and exploration	700	608	456	+92
Debt	1 106	1 052	954	+54
Debt to cash flow (times)	1.6	1.7	1.8	-0.1
Debt to debt plus equity (per cent)	27.3	27.9	26.9	-0.6
Cash	95	129	(7)[3]	-34
Debt, net of cash	1 011	923	961	+88

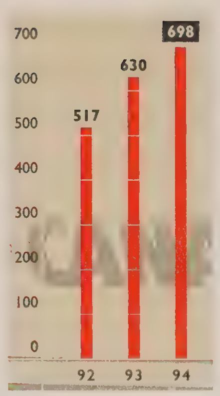
[1] *Restated to reflect the change in the Company's method of accounting for post retirement benefits other than pensions.*

[2] *Cash flow from operations before changes in non-cash working capital items.*

[3] *Net of cash designated for debt retirement.*



EARNINGS FROM OPERATIONS ROSE $62 MILLION
(MILLIONS OF DOLLARS)



CASH FLOW FROM OPERATIONS[1] APPROACHED $700 MILLION
(MILLIONS OF DOLLARS)
[1] *Cash flow from operations before changes in non-cash working capital items.*

CONTINUING IMPROVEMENT IN FINANCIAL PERFORMANCE

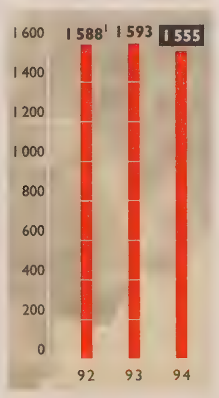
Petro-Canada's financial performance continued to improve in 1994 due to the steady implementation of its financial and operating strategies, as well as some improvement in the upstream business environment.

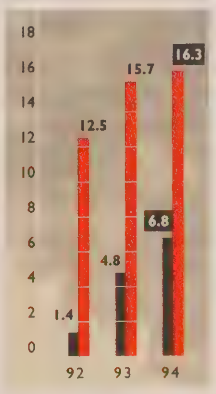
Earnings from operations rose to $219 million ($0.89 per share), up from $157 million ($0.64 per share) in 1993, and net earnings in 1994 reached a record $262 million ($1.06 per share). An unusual item, related to the sale of TroCana Resources, contributed $21 million ($0.08 per share) to 1994 earnings, while there were no unusual items in the prior year. Gains on asset sales, excluding TroCana, were $22 million ($0.09 per share) in 1994, compared with $3 million ($0.01 per share) a year earlier. Cash flow from operations before changes in non-cash working capital items was $698 million ($2.83 per share), an increase of $68 million over 1993.

These improved financial results reflect stronger natural gas and crude oil prices in the upstream sector, a continuing focus on cost management and greater downstream efficiencies.

Petro-Canada's return on capital employed rose to 6.8 per cent in 1994, up from 4.8 per cent a year earlier, while cash flow return on capital employed increased to 16.3 per cent, compared with 15.7 per cent in 1993.

FOCUS ON COST MANAGEMENT MAINTAINED
(MILLIONS OF DOLLARS)
Operating and overhead costs were reduced in 1994.
[1] *Excludes one-time cost reduction of $34 million related to Wolf Lake sale.*





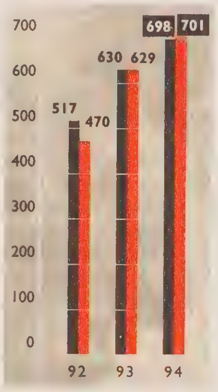
RETURNS ON CAPITAL EMPLOYED CONTINUED TO IMPROVE
(PER CENT)
RETURN ON CAPITAL EMPLOYED
CASH FLOW RETURN ON CAPITAL EMPLOYED

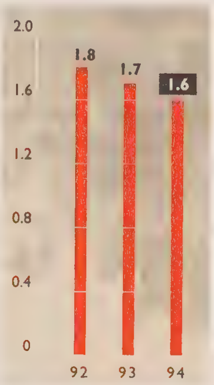
CAPITAL EXPENDITURES FUNDED BY CASH FLOW

Capital and exploration expenditures in 1994 totalled $701 million. Investment increased $72 million from $629 million in 1993, mainly as a result of additional outlays for the development of the Hibernia offshore oil field. Included in the expenditures on property, plant and equipment and exploration was $133 million for conventional oil and gas development in Western Canada. Total exploration expenditures were $68 million, up from the $31 million spent in 1993. Capital spending attributable to the development of the Hibernia oil field was $234 million. Products division investment totalled $167 million, primarily for enhancements to refineries and the marketing network.

CAPITAL AND EXPLORATION EXPENDITURES FUNDED INTERNALLY
(MILLIONS OF DOLLARS)
CASH FLOW FROM OPERATIONS[1]
CAPITAL AND EXPLORATION EXPENDITURES

[1] *Cash flow from operations before changes in non-cash working capital items.*





DEBT TO CASH FLOW CONTINUED TO IMPROVE WITHIN TARGET RANGE OF LESS THAN TWO TIMES
(TIMES)

BALANCE SHEET MANAGED PRUDENTLY

Petro-Canada is committed to maintaining financial strength and flexibility through prudent balance sheet management.

Debt rose $54 million in 1994, ending the year at $1 106 million. Although Petro-Canada did not issue any new debt, the amount of debt shown on the balance sheet increased, reflecting the impact on U.S. dollar-denominated debt of a sharp decline in the value of the Canadian dollar. The ratio of debt to cash flow, an indicator of the Company's ability to repay debt, improved to 1.6 from 1.7 in 1993. The debt to debt plus equity ratio, a measure of the relative proportion of debt to equity in the capital structure, declined to 27.3 per cent from 27.9 per cent a year earlier and remains within the Company's target range.

Dividends on common shares were $41 million in 1994, compared with $32 million a year earlier. In July 1994, the Company announced quarterly dividends of 5 cents per share, an increase from the 3.25 cents per share Petro-Canada had paid since its initial public offering in 1991. The Company reviews its dividend policy periodically in light of its expected earnings and cash requirements.

In 1994, Petro-Canada repurchased, for $155 million, accounts receivable it had sold pursuant to a revolving receivables sales agreement. The Company ended the year with a cash balance of $95 million, down from $129 million at year-end 1993. Interest expense in 1994 was $88 million, virtually unchanged from a year earlier.

Working capital and bridge financing requirements will continue to be met using Petro-Canada's cash position and by issuing short-term debt. The Company plans to fund its short-term requirements through bank lines of credit and a commercial paper program which were not utilized at year end 1994.

1995 CAPITAL EXPENDITURES TO REACH $900 MILLION

The Board of Directors has approved a $900 million capital expenditure program for property, plant and equipment and exploration in support of the Company's strategies in 1995. This action reflects Petro-Canada's financial strength and increasing cash flow, and the Board of Directors' confidence in the Company's ability to accelerate development of attractive growth opportunities.

Some $230 million, net of grants, will be used to fund Petro-Canada's 25 per cent share of expenditures related to the Hibernia offshore oil field. Approximately $340 million will be allocated to other conventional oil and gas development and exploration projects, and strategic property acquisitions in Western Canada. About $180 million will be invested to enhance refinery reliability and efficiency and further upgrade the marketing network, while some $45 million will be directed to the lubricants plant expansion announced in December 1994.

MANAGING CASH FLOW VARIABILITY

Petro-Canada engages in conservative hedging to reduce the variability of short-term cash flow that arises in the course of operating in the oil and gas business, so as to ensure steadier and more predictable results. Petro-Canada does not take open positions or speculate in futures. In 1994, the Company contracted or sold forward about two thirds of its net natural gas production at prices averaging $2.08 per thousand cubic feet, providing substantial protection against falling natural gas prices during the latter half of the year. Petro-Canada also sold forward 37 per cent of its 1994 net crude oil production at an average price of U.S. $19.25 per barrel.

As of January 31, 1995, the Company had hedged nine per cent of its expected 1995 net oil production at an average price of U.S. $18.55 per barrel and 11 per cent of its expected net natural gas production at an average price of $2.08 per thousand cubic feet. In addition to the hedging activities, the Company has contracts for the sale of 37 per cent of its expected 1995 net natural gas production at average fixed prices of $2.02 per thousand cubic feet. The exposure of the Products division to crude and natural gas price movements is managed on an ongoing basis using short-term hedging instruments.

Similarly, in managing its debt, Petro-Canada ensures a mix of maturities to reduce exposure to interest rate fluctuations, and holds much of its debt in U.S. dollars as a natural hedge against variations in oil and gas production revenues caused by currency fluctuations. In 1994, 60 per cent of Petro-Canada's net currency exposure was hedged at a rate of U.S. $0.754, with approximately 50 per cent participation in rate movements below U.S. $0.751.

As at January 31, 1995, currency hedges are in place on approximately 35 per cent of 1995 net currency exposure at an exchange rate of U.S. $0.7024.

The net effect of commodity and currency hedging during 1994 was a $22 million after-tax gain, up from $20 million in the previous year.

THE BUSINESS ENVIRONMENT IN 1994

A number of factors in the external business environment significantly influence Petro-Canada's financial results.

Earnings from the sale of crude oil are dependent upon prevailing market prices, which are driven largely by international supply and demand dynamics, as well as by changes in exchange rates. During 1994, the benchmark West Texas Intermediate crude oil (WTI) price averaged U.S. $17.19 per barrel, down from U.S. $18.49 in 1993. The Canadian price for benchmark light crude averaged $22.21, compared with $21.89 in 1993, as weakness in the Canadian dollar more than offset the impact of the decline in world oil prices.

Natural gas prices were extremely volatile in 1994. Despite higher prices during the first half of the year, unseasonably warm weather in key markets later in the year resulted in reduced demand and sharply lower prices. In 1994, the Alberta plant gate price averaged $1.95 per thousand cubic feet, versus $1.71 a year earlier, but averaged only $1.70 in December.

Refining and marketing margins in the downstream sector are affected primarily by the supply-demand balance for refined products and by the state of competition in the market. Demand, in turn, is largely influenced by economic activity in Canada. In 1994, demand for refined petroleum products rose in tandem with the economic recovery. Ongoing industry rationalization has reduced excess capacity, resulting in higher refinery utilization rates and greater marketing efficiency.

OUTLOOK FOR 1995 AND BEYOND

Over the next two years, management anticipates that natural gas prices will gradually strengthen as U.S. demand for Canadian gas continues to grow. This recovery, however, is dependent on a return to normal weather patterns and, barring a major producer response to severely depressed prices, it is unlikely that natural gas prices will improve beyond current levels. The Alberta plant gate price for natural gas is expected to average about $1.45 per thousand cubic feet in 1995, down $0.50 relative to the average 1994 price. In 1996, prices are expected to recover somewhat to approximately $1.65 per thousand cubic feet.

International crude oil markets are expected to continue to be volatile, largely due to fluctuations in supply. Management estimates the price of WTI will average U.S. $18.50 per barrel during 1995, assuming no major events adversely affect the supply-demand equilibrium. Beyond 1995, prices are expected to remain relatively flat in constant U.S. dollars.

In the downstream sector, management anticipates that continued economic growth and ongoing industry rationalization in 1995 will lead to higher demand for petroleum products and greater profitability.

Within this environment, the Company will continue to pursue strategies designed to enable it to achieve and then exceed the cost of capital. Management believes that these strategies will create additional shareholder value for the remainder of the decade.

Petro-Canada will maintain its value-based management approach to assess the performance of its existing operations along with new investment opportunities. In order to receive funding under this approach, all business units and new projects must demonstrate that they will create value. In general, this means rates of return must exceed the Company's cost of capital.

Petro-Canada is committed to a number of significant growth opportunities over the next few years. The Hibernia oil field, estimated to contain recoverable reserves of 615 million barrels, will be brought on stream, providing the Company with substantial new reserves and production volumes. Increasing investment should lead to growth in natural gas reserves and production. Crude oil production from the Algerian reserves should begin by early 1996. Expansion of the lubricants plant will double the Company's lubricants manufacturing capacity by late 1996. These attractive growth opportunities are estimated to require capital expenditures of more than $2 billion over the next five years.

These growth strategies primarily will be funded internally. The Company expects to maintain debt levels that are within its targets of debt to cash flow less than two times and a debt to debt plus equity ratio below 30 per cent. In 1995, the $900 million investment program will be funded mainly from cash flow, existing cash balances and proceeds from asset sales. Petro-Canada intends to continue to utilize its entitlement to Government-guaranteed debt related to Hibernia.

In 1995, the Company will adopt new recommendations of the Canadian Institute of Chartered Accountants which require the use of the proportionate consolidation method of accounting for interests in joint ventures, previously accounted for on the equity method. As a result, consolidated assets, liabilities and debt will increase, reflecting the Company's proportionate interest in the Petro-Canada Centre in Calgary and in certain downstream joint ventures.

GLOSSARY OF FINANCIAL TERMS AND RATIOS

TERMS

CAPITAL EMPLOYED Total assets excluding the translation adjustment on long-term debt, less current liabilities excluding short-term notes payable and the current portion of long-term debt.[1]

CASH Cash and short-term investments.[1]

CASH FLOW Cash flow from operations before changes in non-cash working capital items.

CONVENTIONAL PRODUCING COSTS PER BARREL OF OIL EQUIVALENT Field operating expenses, future site restoration provision, applicable overhead expenses and taxes other than income taxes relating to the production of conventional crude oil, natural gas and natural gas liquids divided by the related production volumes. Natural gas production (excluding injectants) is converted using 10 000 cubic feet of gas for one barrel of oil.

DEBT Notes payable and long-term debt including current portion.[1]

EARNINGS FROM OPERATIONS Earnings before gains (losses) on asset sales and unusual items, net of income tax.

OPERATING EXPENSES Producing, refining and marketing expenses.

OVERHEAD EXPENSES General and administrative expenses.

RATIOS

CASH FLOW RETURN ON CAPITAL EMPLOYED Cash flow plus after-tax interest expense divided by average capital employed. Measures cash flow generated relative to the asset base.

DEBT TO CASH FLOW Debt divided by cash flow. Shows the Company's ability to discharge its outstanding debt.

DEBT TO DEBT PLUS EQUITY Debt divided by debt plus equity. Indicates the relative amount of debt in the Company's capital structure. Measures financial strength.

OPERATING RETURN ON CAPITAL EMPLOYED Earnings from operations plus after-tax interest expense divided by average capital employed. Measures operating earnings relative to the asset base.

RETURN ON CAPITAL EMPLOYED Net earnings plus after-tax interest expense divided by average capital employed. Measures earnings generated relative to the asset base.

[1] *Less, in 1992, cash and short-term investments designated for debt retirement.*

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The preparation and presentation of the Company's consolidated financial statements is the responsibility of management. The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include some estimates which are based on management's best judgements. Information contained elsewhere in the Annual Report is consistent, where applicable, with that contained in the financial statements.

Management is also responsible for installing and maintaining a system of internal control to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced for preparation of financial statements. The Company's Internal Audit Department reviews the system of internal control to ensure that it is adequate and functioning properly.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises these responsibilities with the assistance of the Audit Committee of the Board.

The external auditors conduct an independent examination and express their opinion on the consolidated financial statements. The Auditors' Report outlines the external auditors' opinion and the scope of their examination.

President and
Chief Executive Officer

Senior Vice-President
and Chief Financial Officer
January 31, 1995

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Board of Directors exercises its responsibility for ensuring that management fulfills its financial reporting and internal control function with the assistance of the Audit Committee of the Board.

The Committee, which is composed of not less than three (currently five) directors who are not employees of the Company, reviews the annual consolidated financial statements prior to their approval by the Board. The Committee also reviews financial information contained in prospectuses and in reports filed with regulatory authorities, as required, as well as quarterly financial information.

With respect to the external auditors, the Committee reviews the terms of engagement, the annual audit plan, the Auditors' Report, the results of the external audit and any significant recommendations to strengthen internal controls. The Committee also recommends to the Board a firm of external auditors to be appointed by the shareholders.

The Committee receives periodic reports on the activities of the Internal Audit Department, reviews its significant findings and recommendations and approves the annual internal audit plan.

Senior management, the internal auditor and the external auditors attend all Audit Committee meetings and each is provided with the opportunity to meet privately with the Committee.

Chairman of the Audit Committee
January 31, 1995

AUDITORS' REPORT

To the Shareholders of Petro-Canada:

We have audited the consolidated balance sheet of Petro-Canada as at December 31, 1994 and 1993 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1994 in accordance with generally accepted accounting principles.

Arthur Andersen & Co.

Chartered Accountants
Calgary, Alberta
January 31, 1995

CONSOLIDATED STATEMENT OF EARNINGS

(STATED IN MILLIONS OF DOLLARS)

FOR THE YEARS ENDED DECEMBER 31,	1994	1993 (RESTATED)	1992 (NOTE 3)
REVENUE			
Operating	$ 4 581	$ 4 507	$ 4 551
Investment and other income	149	96	167
	4 730	4 603	4718
EXPENSES			
Crude oil and product purchases	2 204	2 147	2 358
Producing, refining and marketing	1 342	1 354	1 307
General and administrative	213	239	247
Exploration	34	28	56
Depreciation, depletion and amortization	345	352	391
Taxes other than income taxes	70	65	67
Interest on long-term debt	77	72	117
Other interest	11	15	3
	4 296	4 272	4 546
UNUSUAL ITEMS (NOTE 5)	51	—	(121)
EARNINGS BEFORE INCOME TAXES	485	331	51
PROVISION FOR (RECOVERY OF) INCOME TAXES (NOTE 6)			
Current	124	116	70
Deferred	99	55	(24)
	223	171	46
NET EARNINGS (NOTE 7)	$ 262	$ 160	$ 5

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

(STATED IN MILLIONS OF DOLLARS)

FOR THE YEARS ENDED DECEMBER 31,	1994	1993 (RESTATED)	1992 (NOTE 3)
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR, as previously reported	$ (598)	$ (728)	$ (709)
Retroactive application of change in accounting policy (NOTE 3)	(52)	(50)	(46)
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR, as restated	(650)	(778)	(755)
Net earnings	262	160	5
Dividends on common shares	(41)	(32)	(28)
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	$ (429)	$ (650)	$ (778)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

(STATED IN MILLIONS OF DOLLARS)

FOR THE YEARS ENDED DECEMBER 31,	1994	1993 (RESTATED) (NOTE 3)	1992
OPERATING ACTIVITIES			
Net earnings	$ 262	$ 160	$ 5
Items not affecting cash flow from operations (NOTE 8)	402	442	456
Exploration expenses	34	28	56
Cash flow from operations	698	630	517
(Increase) decrease in operating working capital and other (NOTE 9)	(241)	16	39
	457	646	556
INVESTING ACTIVITIES			
Expenditures on property, plant and equipment and exploration	(700)	(608)	(456)
Proceeds from sale of property, plant and equipment	250	88	256
Decrease (increase) in investments, net	9	(9)	(2)
Increase in deferred charges and other assets, net	(10)	(12)	(12)
Proceeds from sale of investments	—	—	348
	(451)	(541)	134
FINANCING ACTIVITIES AND DIVIDENDS			
Proceeds from issue of common shares	2	1	244
Dividends on common shares	(41)	(32)	(28)
Reduction of long-term debt	(1)	(91)	(880)
Increase in notes payable – Hibernia	—	150	—
(Decrease) increase in short-term notes payable – Hibernia	—	(86)	86
Proceeds from issue of long-term debt	—	—	100
Decrease in other short-term notes payable, net	—	—	(118)
	(40)	(58)	(596)
(DECREASE) INCREASE IN CASH AND SHORT-TERM INVESTMENTS	(34)	47	94
CASH AND SHORT-TERM INVESTMENTS (DEFICIENCY) AT BEGINNING OF YEAR	129	82	(12)
CASH AND SHORT-TERM INVESTMENTS AT END OF YEAR	$ 95	$ 129	$ 82

CONSOLIDATED BALANCE SHEET

(STATED IN MILLIONS OF DOLLARS)

AS AT DECEMBER 31,	1994	1993 (RESTATED) (NOTE 3)
ASSETS		
CURRENT ASSETS		
Cash and short-term investments	$ 95	$ 129
Accounts receivable (NOTE 10)	760	540
Income taxes recoverable	11	—
Inventories (NOTE 11)	435	443
Prepaid expenses	30	29
	1 331	1 141
INVESTMENTS (NOTE 12)	81	88
PROPERTY, PLANT AND EQUIPMENT, NET (NOTE 13)	4 183	4 027
DEFERRED CHARGES AND OTHER ASSETS (NOTE 14)	317	276
	$ 5 912	$ 5 532
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 995	$ 919
Income taxes payable	—	53
	995	972
NOTES PAYABLE - HIBERNIA (NOTE 15)	150	150
LONG-TERM DEBT (NOTE 16)	956	902
DEFERRED CREDITS AND OTHER LIABILITIES (NOTE 17)	296	315
DEFERRED INCOME TAXES	570	471
COMMITMENTS AND CONTINGENT LIABILITIES (NOTE 23)		
SHAREHOLDERS' EQUITY (NOTE 18)	2 945	2 722
	$ 5 912	$ 5 532

Approved on behalf of the Board

Director

Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABULAR AMOUNTS STATED IN MILLIONS OF DOLLARS)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Petro-Canada and of all subsidiary companies ("the Company") and comply in all material respects with Canadian generally accepted accounting principles.

The excess of the consideration paid for the shares of subsidiaries over the underlying net book values at the dates of acquisition is attributed to the related assets acquired and is amortized over the life of these assets.

(B) INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Cost of crude oil and products is determined primarily on a "last-in, first-out" basis.

(C) INVESTMENTS

Investments in companies over which the Company has significant influence are accounted for on the equity method. Other long-term investments are accounted for on the cost method.

(D) PROPERTY, PLANT AND EQUIPMENT

Investments in exploration and development activities are accounted for on the successful efforts method. Under this method the acquisition cost of unproved acreage is capitalized. Costs of exploratory wells are initially capitalized pending determination of proved reserves and costs of wells which are assigned proved reserves remain capitalized while costs of unsuccessful wells are charged to earnings. All other exploration costs are charged to earnings as incurred. Development costs, including the cost of all wells, are capitalized.

Substantially all of the Company's exploration and development activities are conducted jointly with others. Only the Company's proportionate interest in such activities is reflected in the financial statements.

The interest cost of debt attributable to the construction of major new facilities is capitalized during the construction period.

(E) DEPRECIATION, DEPLETION AND AMORTIZATION

The carrying amounts of unproved properties are evaluated periodically for impairment with any such impairment being charged to earnings.

Depreciation and depletion of capitalized costs of oil and gas producing properties is calculated using the unit of production method.

Depreciation of other plant and equipment is provided on either the unit of production method or the straight line method, based on the estimated service lives of the related assets, as appropriate.

(F) FUTURE REMOVAL AND SITE RESTORATION COSTS

Estimated future removal and site restoration costs which are probable and can be reasonably determined are provided for on either the unit of production method or the straight line method, based on the estimated service lives of the related assets, as appropriate.

(G) INCOME TAXES

Provision is made for income taxes deferred as the result of claiming depreciation, exploration, development and other costs for income tax purposes which differ from the related amounts charged to earnings.

(H) TRANSLATION OF FOREIGN CURRENCY

Monetary assets and liabilities are translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Other assets and related depreciation, depletion and amortization, other liabilities, revenue and other expense items are translated at rates of exchange in effect at the respective transaction dates. The resulting exchange gains or losses are included in earnings, except for unrealized exchange gains or losses arising on translation of long-term debt, which are deferred and amortized over the remaining term of the debt.

Foreign operations are integrated with the Company's other activities and are translated in the manner described above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABULAR AMOUNTS STATED IN MILLIONS OF DOLLARS)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(I) HEDGING ACTIVITY

The Company uses derivative instruments to reduce its exposure to foreign exchange and commodity price fluctuations. Gains and losses on these contracts which constitute effective hedges are deferred and recognized as a component of the related transaction.

(J) POST RETIREMENT BENEFITS

In addition to its pension plans the Company provides for other post retirement benefits, including health, dental and life insurance, to its qualifying retirees. The actuarially determined cost of these benefits is accrued over the estimated service lives of employees.

2. SEGMENTED INFORMATION

The Company operates in two business segments:

Natural Resources, comprising: exploration, development, production, transportation and marketing activities for crude oil, natural gas, propane, field liquids, sulphur and oil sands; and extraction of liquids from natural gas.

Refined Products, comprising: purchase and sale of crude oil; refining crude oil into oil products; and distribution and marketing of these and other purchased products.

Financial information by business segment is presented in the following table as though each segment were a separate business entity. Inter-segment transfers of products, which are accounted for at market value, are eliminated on consolidation. Corporate includes investment income, interest expense and general corporate revenues and expenditures. Corporate assets are principally cash and short-term investments and general corporate assets.

	NATURAL RESOURCES			REFINED PRODUCTS		
	1994	1993	1992	**1994**	1993	1992
REVENUE						
Sales to customers and other revenues	$ 921	$ 833	$ 714	$ 3 803	$ 3 760	$ 3 979
Inter-segment sales	499	532	575	24	32	21
SEGMENT REVENUE	$ 1 420	$ 1 365	$ 1 289	$ 3 827	$ 3 792	$ 4 000
EARNINGS						
Operating earnings before the following:	$ 577	$ 496	$ 530	$ 356	$ 329	$ 223
Depreciation, depletion and amortization	(220)	(232)	(222)	(123)	(118)	(164)
Exploration expense	(34)	(28)	(56)	—	—	—
Unusual items	51	—	—	—	—	—
Provision for income taxes	(181)	(121)	(109)	(95)	(97)	(31)
NET EARNINGS	$ 193	$ 115	$ 143	$ 138	$ 114	$ 28
CAPITAL AND EXPLORATION EXPENDITURES						
Property, plant and equipment and exploration expenditures	$ 527	$ 414	$ 345	$ 167	$ 189	$ 109
Investments	(9)	9	—	2	1	3
Deferred charges and other assets	4	7	3	(3)	(4)	(6)
	$ 522	$ 430	$ 348	$ 166	$ 186	$ 106
TOTAL ASSETS	$ 2 912	$ 2 758	$ 2 639	$ 2 653	$ 2 426	$ 2 413
CAPITAL EMPLOYED	$ 2 573	$ 2 463	$ 2 340	$ 2 014	$ 1 837	$ 1 799

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABULAR AMOUNTS STATED IN MILLIONS OF DOLLARS)

2. SEGMENTED INFORMATION (CONTINUED)

	CORPORATE			CONSOLIDATED		
	1994	1993	1992	1994	1993	1992
REVENUE						
Sales to customers and other revenues	$ 6	$ 10	$ 25	$ 4 730	$ 4 603	$ 4 718
Inter-segment sales	—	—	—			
SEGMENT REVENUE	$ 6	$ 10	$ 25			
EARNINGS						
Operating earnings (loss) before the following:	$ (32)	$ (27)	$ (14)	$ 901	$ 798	$ 739
Depreciation, depletion and amortization	(2)	(2)	(5)	(345)	(352)	(391)
Exploration expense	—	—	—	(34)	(28)	(56)
Interest	(88)	(87)	(120)	(88)	(87)	(120)
Unusual items	—	—	(121)	51	—	(121)
(Provision for) recovery of income taxes	53	47	94	(223)	(171)	(46)
NET EARNINGS (LOSS)	$ (69)	$ (69)	$ (166)	$ 262	$ 160	$ 5
CAPITAL AND EXPLORATION EXPENDITURES						
Property, plant and equipment and exploration expenditures	$ 6	$ 5	$ 2	$ 700	$ 608	$ 456
Investments	(2)	(1)	(1)	(9)	9	2
Deferred charges and other assets	9	9	15	10	12	12
	$ 13	$ 13	$ 16	$ 701	$ 629	$ 470
TOTAL ASSETS	$ 347	$ 348	$ 298	$ 5 912	$ 5 532	$ 5 350
CAPITAL EMPLOYED	$ 173	$ 144	$ 96	$ 4 760	$ 4 444	$ 4 235

3. CHANGE IN ACCOUNTING POLICY

Effective January 1, 1994 the Company changed its method of accounting for post retirement benefits other than pensions to accrue for the actuarially determined cost of the benefits over the estimated service lives of employees (Note 1(j)). Previously, the cost of these benefits was charged to earnings when paid. This change in accounting has been applied retroactively and the financial statements of prior periods have been restated.

The cumulative effect of this change as at January 1, 1994 resulted in increases in retained deficit and in deferred credits and other liabilities of $52 million and $91 million, respectively, and a decrease of $39 million in deferred income taxes. The change reduced net earnings for 1994, 1993 and 1992 by $4 million, $2 million and $4 million, respectively.

4. TAXES AND CROWN ROYALTIES

In addition to taxes other than income taxes and the provision for income taxes included in the statement of earnings, the following items have been collected or produced on behalf of governments and have been paid or are payable by the Company:

	1994	1993	1992
Provincial fuel and sales taxes	$ 1 135	$ 1 130	$ 1 164
Federal excise taxes	676	708	737
Goods and Services Tax collected	517	542	540
Crown royalties, paid and paid in kind	124	117	101
	$ 2 452	$ 2 497	$ 2 542

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABULAR AMOUNTS STATED IN MILLIONS OF DOLLARS)

5. UNUSUAL ITEMS

	1994	1993	1992
Gain on sale of TroCana Resources	$ 51	$ —	$ —
Restructure and reorganization	—	—	(60)
Loss on retirement of long-term debt	—	—	(53)
Loss on disposal of investments	—	—	(8)
	$ 51	$ —	$ (121)

GAIN ON SALE OF TROCANA RESOURCES

During 1994 the Company disposed of TroCana Resources, a business unit formed to hold certain non-core oil and gas properties, resulting in a gain of $51 million.

RESTRUCTURE AND REORGANIZATION

During 1992 the Company implemented an internal reorganization and staff reduction program resulting in a charge to earnings of $60 million.

LOSS ON RETIREMENT OF LONG-TERM DEBT

The Company prepaid U.S. $600 million of debt in 1992 resulting in a charge to earnings of $53 million. This completed the repayment of agency debt required under the terms of an agreement to restructure the Company's long-term indebtedness to Petro-Canada Limited, a Crown corporation which formerly was Petro-Canada's parent company.

LOSS ON DISPOSAL OF INVESTMENTS

During 1992 the Company disposed of its 37% investment in Westcoast Energy Inc. ("Westcoast") and its 27% interest in Internationale de Services Industriels et Scientifiques ("ISIS"). The disposal of the investment in Westcoast together with the sale of a related installment receivable resulted in a loss of $50 million. The disposal of the investment in ISIS resulted in a gain of $42 million.

6. INCOME TAXES

The computation of the provision for income taxes, which requires adjustment to earnings before income taxes for non-taxable and non-allowable items, is as follows:

	1994	1993	1992
Earnings before income taxes	$ 485	$ 331	$ 51
Add (deduct)			
Royalties and other payments to provincial governments, net	120	115	106
Resource allowance	(115)	(117)	(89)
Non-deductible depreciation, depletion and amortization	78	66	83
Non-deductible interest	1	(1)	(15)
Non-taxable (gains) losses	(4)	(4)	53
Equity in earnings of affiliates	(8)	(7)	(26)
Other	(6)	7	(29)
Earnings as adjusted before income taxes	$ 551	$ 390	$ 134
Canadian Federal income tax rate	38.0%	38.0%	38.0%
Canadian Federal income tax on earnings as adjusted	$ 209	$ 148	$ 51
Large Corporations Tax	9	9	9
Provincial and other income taxes, net of federal abatement	26	16	7
Rebates and other	(21)	(2)	(21)
Provision for income taxes	$ 223	$ 171	$ 46

The provision for income taxes of $223 million (1993 – $171million; 1992 – $46 million) represents an effective rate of 46.0% (1993 – 51.7%; 1992 – 90.2%) on earnings before income taxes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABULAR AMOUNTS STATED IN MILLIONS OF DOLLARS)

7. NET EARNINGS PER COMMON SHARE

The basic net earnings per common share, based on the weighted average number of common shares outstanding in 1994 of 246.7 million (1993 – 246.5 million; 1992 – 217.1 million), for 1994 was $1.06 (1993 – $0.65; 1992 – $0.02). Fully diluted earnings per share, calculated on the assumption that all outstanding stock options were exercised, do not differ from the basic net earnings per common share.

8. ITEMS NOT AFFECTING CASH FLOW FROM OPERATIONS

	1994	1993	1992
Depreciation, depletion and amortization	$ 345	$ 352	$ 391
Deferred income taxes	99	55	(24)
Provision for future removal and site restoration costs	24	24	20
Amortization of unrealized foreign exchange losses	20	14	6
Gain on sale of assets	(40)	(11)	(54)
Unusual items, net (NOTE 5)	(51)	—	128
Other	5	8	(11)
	$ 402	$ 442	$ 456

9. (INCREASE) DECREASE IN OPERATING WORKING CAPITAL AND OTHER

	1994	1993	1992
Accounts receivable	$ (220)	$ 40	$ 31
Income taxes recoverable	(11)	8	21
Inventories	8	17	67
Prepaid expenses	(1)	(3)	7
Accounts payable and accrued liabilities	76	(14)	76
Income taxes payable	(53)	53	—
Advances on future natural gas deliveries	(4)	(12)	(15)
Current accruals relating to unusual items (NOTE 5) and other	(36)	(73)	(148)
	$ (241)	$ 16	$ 39

Operating working capital is comprised of working capital other than cash and short-term investments, short-term notes payable and current portion of long-term debt.

10. ACCOUNTS RECEIVABLE

The Company is party to an agreement to sell accounts receivable with limited recourse on a revolving basis. At December 31, 1994 no accounts receivable have been sold pursuant to this agreement (December 31, 1993 – $164 million).

11. INVENTORIES

	1994	1993
Crude oil, refined products and merchandise	$ 380	$ 390
Materials and supplies	55	53
	$ 435	$ 443

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABULAR AMOUNTS STATED IN MILLIONS OF DOLLARS)

12. INVESTMENTS

	1994	1993
AT EQUITY		
Petro-Canada Centre[1]	$ 32	$ 32
Other	25	21
AT COST		
Loans and other investments	24	35
	$ 81	$ 88

[1] *The Company owns 50% of Petro-Canada Centre, an office complex in Calgary. The Company has entered into a long-term lease for use of a portion of the complex and, as at December 31, 1994, has guaranteed or provided support for a guarantee of $287 million of debt related to the facility.*

13. PROPERTY, PLANT AND EQUIPMENT

	1994			1993			Capital Expenditures	
	Cost	Accumulated Depreciation, Depletion and Amortization	Net	Cost	Accumulated Depreciation, Depletion and Amortization	Net	1994	1993
NATURAL RESOURCES								
Oil and gas								
Canada non-frontier	$ 2 892	$ 1 662	$ 1 230	$ 3 050	$ 1 723	$ 1 327	$ 208	$ 164
Hibernia Project	613	—	613	379	—	379	234	165
Other frontier	69	—	69	68	—	68	1	6
Foreign	8	—	8	8	7	1	7	7
Oil sands								
Syncrude Project	546	200	346	532	187	345	14	11
Other	216	216	—	220	220	—	—	1
Natural gas liquids	533	290	243	523	268	255	24	32
Other	80	71	9	77	66	11	5	—
	4 957	2 439	2 518	4 857	2 471	2 386	493	386
REFINED PRODUCTS								
Refining	2 149	1 275	874	2 069	1 213	856	81	129
Marketing and other	1 181	418	763	1 124	376	748	86	60
	3 330	1 693	1 637	3 193	1 589	1 604	167	189
OTHER PROPERTY, PLANT AND EQUIPMENT	297	269	28	295	258	37	6	5
	$ 8 584	$ 4 401	$ 4 183	$ 8 345	$ 4 318	$ 4 027	$ 666	$ 580

Interest capitalized during 1994 amounted to $17 million (1993 – $14 million; 1992 – $8 million).

Costs relating to the Hibernia Project and other frontier are not currently being amortized.

14. DEFERRED CHARGES AND OTHER ASSETS

	1994	1993
Translation adjustment on long-term debt	$ 157	$ 116
Deferred pension funding	69	59
Goodwill	39	48
Investment tax credits	22	19
Other	30	34
	$ 317	$ 276

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABULAR AMOUNTS STATED IN MILLIONS OF DOLLARS)

15. NOTES PAYABLE – HIBERNIA

The Company has issued $150 million 6.125% bonds due December 15, 1998. These bonds relate to the Hibernia Project and are guaranteed by the Government of Canada (Note 23(b)); recourse of the bondholders is limited to the guarantee.

16. LONG-TERM DEBT

	MATURITY	1994	1993
9.375% unsecured notes[1]	1997	$ 114	$ 108
8.60% unsecured notes (U.S. $300 million)	2001	421	397
9.25% unsecured debentures (U.S. $300 million)	2021	421	397
		$ 956	$ 902

[1] *Canadian dollar notes and the related interest payments have been converted into U.S. $81 million (1993 – U.S. $82 million) through a currency swap arrangement, resulting in an effective interest rate of 7.39% which includes the foreign exchange effect (net of income tax) inherent in the notes' financing structure.*

The required repayment of long-term debt in the next five years is $114 million in 1997.

17. DEFERRED CREDITS AND OTHER LIABILITIES

	1994	1993
Future removal and site restoration costs	$ 156	$ 172
Post retirement benefits	97	91
Long-term liabilities	43	52
	$ 296	$ 315

18. SHAREHOLDERS' EQUITY

	1994	1993
Common shares	$ 802	$ 800
Contributed surplus	2 572	2 572
Retained earnings (deficit)	(429)	(650)
	$ 2 945	$ 2 722

The authorized share capital of the Company is comprised of an unlimited number of:

(a) Preferred shares issuable in series designated as Senior Preferred Shares;

(b) Preferred shares issuable in series designated as Junior Preferred Shares; and

(c) Common shares.

Changes in share capital and contributed surplus were as follows:

	1994			1993		
	COMMON SHARES		CONTRIBUTED SURPLUS	COMMON SHARES		CONTRIBUTED SURPLUS
	SHARES	AMOUNT		SHARES	AMOUNT	
Balance at beginning of year	246 526 043	$ 800	$ 2 572	246 463 165	$ 799	$ 2 572
Issued under stock option plan	141 020	2	—	62 878	1	—
Balance at end of year	246 667 063	$ 802	$ 2 572	246 526 043	$ 800	$ 2 572

As at December 31, 1994 stock options were outstanding for 954 829 shares at $13.00, 461 200 shares at $8.125, 331 200 shares at $7.875, and 201 800 shares at $13.625. These options, which were granted under the terms of the Executive Stock Option Plan, expire on July 3, 2001, July 29, 2002, March 18, 2003 and March 2, 2004, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABULAR AMOUNTS STATED IN MILLIONS OF DOLLARS)

19. PENSION PLANS

The Company's plans are defined benefit plans with the benefits generally based upon years of service and average salary during the final years of employment. The registered pension plans are funded by the Company, based upon the advice of an independent actuary, and the assets are held primarily in equity, fixed income and other marketable securities.

	1994	1993
FINANCIAL STATUS		
Actuarial value of assets	$ 751	$ 669
Pension obligation	700	649
Net pension asset	$ 51	$ 20

The net pension asset is amortized to earnings over the expected average remaining service life of the employees covered by the plans, which is currently 12 years.

As at December 31, 1994 $686 million (December 31, 1993 – $638 million) of the pension obligation was vested.

	1994	1993	1992
PENSION EXPENSE			
Current service cost	$ 23	$ 22	$ 24
Interest cost	59	54	52
Actual return on plan assets	3	(142)	(24)
Net amortization and deferral	(64)	86	(37)
	$ 21	$ 20	$ 15
PENSION FUNDING	$ 28	$ 31	$ 26
PLAN ASSUMPTIONS			
Discount rate	9.0%	9.0%	9.0%
Long-term rate of return on plan assets	9.0%	9.0%	9.0%
Rate of compensation increase, excluding merit increases	4.0%[1]	6.0%	6.0%

[1] *Increasing by 0.5% per year to 5.5% per year in 1997 and thereafter.*

20. RELATED PARTY TRANSACTIONS

Transactions with the Government of Canada (which holds 70.3% of the Company's issued common shares at December 31, 1994), its agencies and other related parties, are in the normal course of business and are therefore on the same terms as those accorded to non-related parties.

As at December 31, 1994 officers and employees owed the Company $5 million (1993 – $5 million) in relation to stock purchase plans.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

At December 31, 1994 the fair value and the related method of determination along with the carrying value of the Company's financial instruments are as follows:

CASH AND SHORT-TERM INVESTMENTS

The fair value of cash and short-term investments approximates the carrying amount of these instruments due to their short maturity.

LONG-TERM DEBT AND NOTES PAYABLE - HIBERNIA

The fair value of long-term debt and notes payable - Hibernia is based on publicly quoted market values.

DERIVATIVE INSTRUMENTS

The fair value of derivative instruments is based on quotes provided by brokers.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABULAR AMOUNTS STATED IN MILLIONS OF DOLLARS)

21. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

	CARRYING AMOUNT	FAIR VALUE
Cash and short-term investments	$ 95	$ 95
Long-term debt and notes payable - Hibernia	(1 106)	(1 104)
Derivative instruments	(9)	1

22. DERIVATIVE INSTRUMENTS

In order to reduce exposure to commodity price fluctuations, the Company has sold forward 9% of its estimated 1995 net crude oil production and 11% of its estimated 1995 net natural gas production at average prices of U.S. $18.55 per barrel and Canadian $2.08 per thousand cubic feet, respectively. At December 31, 1994 the unrealized gain on the forward sale of oil was $2 million before income taxes, and the unrealized gain on the forward sale of gas was $15 million before income taxes. In addition to the above hedging activities the Company has contracts for the sale of 37% of its estimated 1995 net natural gas production at average fixed prices of Canadian $2.02 per thousand cubic feet.

The Company has purchased forward 53% of its estimated 1995 natural gas requirements for refinery utilization at average prices of Canadian $2.07 per thousand cubic feet. At December 31, 1994 the unrealized loss on the forward purchase of gas was $6 million before income taxes.

A significant portion of the Company's anticipated revenues and expenses are affected by the Canadian/U.S. dollar exchange rate. In order to reduce this foreign exchange exposure the Company has implemented a hedging program utilizing foreign currency options, swaps and forward contracts. Currency hedges are in place on approximately 20% of estimated 1995 net currency exposure at a rate of U.S. 70.40 cents. At December 31, 1994 the unrealized gain on these positions was $1 million before income taxes.

Although notional principal amounts do not measure the Company's exposure through its use of derivative instruments and do not represent the amounts exchanged with counterparties, the following notional principal amounts are provided as part of the description of the Company's derivative instruments:

	1994	1993
Foreign exchange contracts	$ 242	$ 394
Commodity contracts	218	429

Derivative instruments involve a degree of credit risk which the Company controls through the establishment of credit policies and limits and the selection of appropriate counterparties. Market risk relating to changes in value or settlement cost of the Company's derivative instruments is essentially offset by gains or losses on the hedged positions. At December 31, 1994 all derivative instruments held by the Company related to hedging activities.

23. COMMITMENTS AND CONTINGENT LIABILITIES

(a) The Company has leased property and equipment under various long-term operating leases for periods up to 2012. The minimum annual rentals for non-cancellable operating leases are estimated at $88 million in 1995, $74 million in 1996, $60 million in 1997, $47 million in 1998, $41 million in 1999 and $20 million per year thereafter until 2012.

(b) The Company is a participant in the project to develop the Hibernia offshore oil field. Costs to production start-up are estimated at $6.2 billion; the Company's 25% share after Government contributions is expected to be approximately $1.3 billion (before related investment tax credits), of which $607 million had been expended to December 31, 1994. The Company's investment in the Project will be financed, in part, by Government guaranteed loans to a maximum of $415 million; the Government's recourse to the Company is limited, subject to the Company's compliance with certain covenants, to the Hibernia Project (Note 15). The Company's share of development costs subsequent to production start-up is estimated at $504 million, which is expected to be financed from cash flow from the Project.

(c) The Company is involved in litigation and claims associated with normal operations. Management is of the opinion that any resulting settlements would not materially affect the financial position of the Company.

24. COMPARATIVE FIGURES

Certain reclassifications have been made to the 1993 and 1992 comparative figures to conform with the current year's presentation.

SUPPLEMENTAL INFORMATION

NET RESERVES OF CRUDE OIL AND NATURAL GAS BEFORE ROYALTIES

Proved reserves of crude oil and liquids increased by 22 million barrels in 1994 to 411 million barrels. Major positive changes included revisions in synthetic crude reserves, from an extension to the operating permit, and additions of 15 million barrels of conventional reserves through purchases, discoveries, extensions and improved recovery. Offsetting the positive changes were production of 26 million barrels, a negative revision at Golden Lake, Saskatchewan, of 22 million barrels, and sales of reserves in place of 17 million barrels.

Proved reserves of natural gas decreased by 252 billion cubic feet in 1994. The major positive change was the addition of 136 billion cubic feet from discoveries, extensions and improved recovery. These additions were more than offset by production of 197 billion cubic feet and sale of reserves in place of 208 billion cubic feet.

Based on the reserve estimates of participants, 154 million barrels of recoverable reserves before royalties are attributed to Petro-Canada's 25 per cent interest in Hibernia. Hibernia reserves, and estimated reserves in Algeria, will be booked when appropriate during the development and production phases of these projects.

	CRUDE OIL AND FIELD NATURAL GAS LIQUIDS (MILLIONS OF BARRELS)				NATURAL GAS (BILLIONS OF CUBIC FEET)
	CONVENTIONAL WESTERN PROVINCES	CONVENTIONAL INTERNATIONAL	SYNTHETIC CRUDE OIL[1]	TOTAL	
NET PROVED DEVELOPED AND UNDEVELOPED RESERVES BEFORE ROYALTIES[2,3]					
Beginning of year 1992	194	1	228	423	2 653
Revisions of previous estimates[4]	35	—	50	85	11
Sale of reserves in place	(25)	—	(67)	(92)	(242)
Purchase of reserves in place	27	—	—	27	166
Discoveries, extensions and improved recovery	3	—	—	3	3
Production	(20)	—	(9)	(29)	(187)
End of year 1992	214	1	202	417	2 404
Revisions of previous estimates[4]	(11)	—	9	(2)	14
Sale of reserves in place	(7)	(1)	—	(8)	(55)
Purchase of reserves in place	1	—	—	1	26
Discoveries, extensions and improved recovery	10	—	—	10	129
Production	(21)	—	(8)	(29)	(205)
End of year 1993	186	—	203	389	2 313
Revisions of previous estimates[4]	(15)	—	65	50	(3)
Sale of reserves in place	(17)	—	—	(17)	(208)
Purchase of reserves in place	10	—	—	10	20
Discoveries, extensions and improved recovery	5	—	—	5	136
Production	(18)	—	(8)	(26)	(197)
End of year 1994	151	—	260	411	2 061

[1] *Reserves of synthetic crude oil are based on an average gross production rate at Syncrude of 192 000 barrels per day to the year 2025.*

[2] *Net proved developed and undeveloped reserves before royalties are Petro-Canada's working interest in reserves before the deduction of Crown or other royalties. Such royalties are subject to change by legislation or regulation and can also vary depending on production rates, selling prices and timing of initial production. No reserve quantities have been included to reflect royalty interests Petro-Canada has in various properties.*

[3] *Proved reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, including reserves to be obtained by enhanced recovery processes demonstrated to be successful and from that portion of an area delineated by drilling and defined by gas-oil and/or oil-water contacts in drilled wells or immediately adjacent portions not yet drilled but which can be reasonably evaluated as economically productive, on the basis of geological, geophysical and engineering data. Proved developed reserves are those proved reserves that are expected to be recovered from existing wells or facilities. Proved undeveloped reserves are proved reserves which are not recoverable from existing wells or facilities, but that are expected to be recovered through additional development drilling or through the upgrading of existing or additional new facilities.*

[4] *Revisions to recoverable reserve estimates resulting from the application of year-end product prices and uninflated operating and expected development costs as at year end are included in revisions to previous estimates.*

SUPPLEMENTAL INFORMATION

OIL AND GAS LANDHOLDINGS (GROSS/NET)[1]

(MILLIONS OF ACRES)	DEVELOPED[2]				UNDEVELOPED[2]				TOTAL			
	1994		1993		1994		1993		1994		1993	
	GROSS[1]	NET[1]	GROSS	NET	GROSS	NET	GROSS	NET	GROSS	NET	GROSS	NET
CANADA												
Conventional Western Canada	2.3	1.1	3.2	1.4	1.1	0.7	1.7	1.0	3.4	1.8	4.9	2.4
Oil sands	0.1	—	0.1	—	0.8	0.2	0.8	0.3	0.9	0.2	0.9	0.3
East Coast Offshore	—	—	—	—	0.9	0.4	1.2	0.5	0.9	0.4	1.2	0.5
Other Frontier[3]	—	—	—	—	11.2	10.1	11.3	10.1	11.2	10.1	11.3	10.1
INTERNATIONAL[4]	—	—	—	—	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
PETRO-CANADA TOTAL	2.4	1.1	3.3	1.4	16.0	13.4	17.0	13.9	18.4	14.5	20.3	15.3

[1] *Gross acres includes the interests of others while net acres excludes the interests of others.*

[2] *Developed lands are areas capable of production. Undeveloped lands are areas with rights to explore.*

[3] *Exploration is not currently permitted in the Eastern Arctic or off the west coast of Canada.*

[4] *International for 1993 and 1994 includes Algeria only.*

PRINCIPAL RESERVE AND PRODUCTION LOCATIONS

CONVENTIONAL CRUDE OIL

FIELDS	PROVED RESERVES BEFORE ROYALTIES AT DECEMBER 31, 1994 (MILLIONS OF BARRELS)	PER CENT OF TOTAL PROVED RESERVES	AVERAGE 1994 DAILY PRODUCTION BEFORE ROYALTIES (THOUSANDS OF BARRELS)	PER CENT OF TOTAL 1994 OIL PRODUCTION
Valhalla, Alberta	33.5	28	7.5	19
Pembina, Alberta	21.9	18	2.3	6
Golden Lake, Saskatchewan	9.5	8	2.8	7
Boundary Lake, B.C.	8.6	7	1.6	4
Bellshill Lake, Alberta	8.0	7	7.2	18
Cactus Lake, Saskatchewan	6.5	5	1.9	5
Utikuma, Alberta	6.2	5	3.1	8
Shekilie, Alberta	4.3	4	0.9	2
Evi, Alberta	1.1	1	2.5	6
Other	20.1	17	10.5	25
Total	119.7	100	40.3	100

SUPPLEMENTAL INFORMATION

NATURAL GAS FIELDS	PROVED RESERVES BEFORE ROYALTIES AT DECEMBER 31, 1994 (BILLIONS OF CUBIC FEET)	PER CENT OF TOTAL PROVED RESERVES	AVERAGE 1994 DAILY PRODUCTION BEFORE ROYALTIES (MILLIONS OF CUBIC FEET)	PER CENT OF TOTAL 1994 GAS PRODUCTION
Hanlan, Alberta	293	14	83	15
Jedney, B.C.	226	11	36	7
Wildcat Hills, Alberta	151	7	33	6
Ricinus, Alberta	131	6	36	7
Medicine Hat, Alberta	130	6	23	4
Yoyo, B.C.	125	6	41	8
Gilby, Alberta	122	6	38	7
Laprise Creek, B.C.	114	6	35	6
Other	769	38	215	40
Total	2 061	100	540	100

The reserves and production data in these tables do not include natural gas liquids.

REFINING BY LOCATIONS

Petro-Canada owns and operates three refineries, at Edmonton, Montreal and Oakville, Ontario. The refineries produce a full slate of refined petroleum products, including gasolines, diesel fuels, heating oils, aviation fuels, asphalts and petrochemical feedstocks. Refining units at Port Moody, British Columbia, and crude oil and fuel processing units at Mississauga, Ontario, were permanently shut down in 1993, reducing total capacity by 12 500 cubic metres per day.

The Company also owns and operates a lubricants plant in Mississauga, Ontario, which produces base oils, motor oils and specialty lubricants and greases, using feedstock from the Oakville and Montreal refineries.

	AVERAGE VOLUMES OF CRUDE OIL PROCESSED PER CALENDAR DAY [1]			DAILY RATED CAPACITY AS AT DECEMBER 31,[2]
	1994	1993	1992	1994
Edmonton, Alberta	17.3	15.5	14.3	18.4
Montreal, Quebec	12.2	11.2	9.3	13.9
Oakville, Ontario	12.6	13.4	13.6	12.8
Port Moody, British Columbia	—	1.3	4.4	—
Total	42.1	41.4	41.6	45.1

[1] *For refineries which closed part way through the year, average daily volumes are calculated as if the refinery had operated all year.*

[2] *Daily rated capacity is based on calendar days and definite specifications as to types of crude oil, the products to be obtained and the refinery process required. Variations in these factors may result in actual capacity being higher or lower than rated capacities.*

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES

The Company's consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada, which differ in some respects from those applicable in the United States. The significant differences in accounting principles as they pertain to the accompanying consolidated financial statements are described in the Statistical Supplement to this Annual Report and in the Company's Form 40-F report, which is filed with the Securities and Exchange Commission in the United States.

The Statistical Supplement also includes disclosures in accordance with the United States Financial Accounting Standards Board Statement No. 69 ("Disclosures About Oil and Gas Producing Activities").

Form 40-F and the Statistical Supplement are available on request (see inside back cover).

FIVE YEAR FINANCIAL AND OPERATING SUMMARY

(STATED IN MILLIONS OF DOLLARS, UNLESS OTHERWISE INDICATED)	1994	1993	1992	1991	1990
CONSOLIDATED					
Revenue	$ 4 730	$ 4 603	$ 4 718	$ 4 961	$ 5 873
Expenses	4 296	4 272	4 546	5 168	5 543
Unusual items	51	—	(121)	(770)	—
Provision for (recovery of) income taxes	223	171	46	(374)	159
Net earnings (loss)	$ 262	$ 160	$ 5	$ (603)	$ 171
Cash flow from operations[2]	698	630	517	292	621
Total assets	5 912	5 532	5 350	6 034	7 278
Average capital employed	4 602	4 340	4 635	5 649	5 843
Return on capital employed (per cent)	6.8	4.8	1.4	(8.6)	5.9
Operating return on capital employed (per cent)	5.8	4.8	3.1	(0.7)	5.4
Cash flow return on capital employed (per cent)	16.3	15.7	12.5	7.3	13.6
Debt	1 106	1 052	954	1 649	2 242
Debt to debt plus equity (per cent)	27.3	27.9	26.9	40.3	46.9
Expenditures on property, plant and equipment and exploration	700	608	456	652	643
Employees (number at year end)					
Petro-Canada	4 871	5 029	5 329	6 213	6 353
Subsidiaries	1 338	2 290	2 931	3 311	3 453
Total	6 209	7 319	8 260	9 524	9 806
SHAREHOLDERS' DATA					
Weighted average number of common shares outstanding (millions)	246.7	246.5	217.1	194.1	
Common shares outstanding at year end (millions)	246.7	246.5	246.5	215.3	
Publicly held common shares at year end (millions)	73.4	73.3	73.2	42.0	
Share prices (dollars)[3]					
– at year end	11⅜	12	8⅛	9½	
– range during the year	10¾-14⅞	7¼-14	7⅞-10⅞	9-13¼	
Shares traded (millions)[4]	45.6	83.7	27.0	32.3	
Book value per share	11.94	11.04	10.52	11.02	
RESOURCES DIVISION					
Earnings from operations	$ 153	$ 114	$ 119	$ 33	$ 170
Gains on asset sales	19	1	24	—	33
Unusual items	21	—	—	(95)	—
Net earnings (loss)	$ 193	$ 115	$ 143	$ (62)	$ 203
Cash flow from operations[2]	448	376	391	338	510
Expenditures on property, plant and equipment and exploration					
Exploration and development	$ 209	$ 183	$ 106	$ 221	$ 246
Hibernia development	234	165	93	62	12
Other	84	66	146	75	151
	$ 527	$ 414	$ 345	$ 358	$ 409

FIVE YEAR FINANCIAL AND OPERATING SUMMARY

(STATED IN MILLIONS OF DOLLARS, UNLESS OTHERWISE INDICATED)	1994	1993	1992	1991	1990
RESOURCES DIVISION (CONTINUED)					
DAILY PRODUCTION (NET, BEFORE ROYALTIES)					
Crude oil and field liquids (thousands of barrels)	73.3	79.8	79.8	92.5	94.3
Natural gas (excluding injectants, millions of cubic feet)	540	562	507	508	484
Ethane and natural gas liquids production from straddle plants (thousands of barrels)	36.8	40.8	36.4	34.0	42.4
Average sales prices					
Crude oil and field liquids (dollars per barrel)	19.60	18.83	19.65	19.21	24.02
Natural gas (dollars per thousand cubic feet)	1.77	1.56	1.28	1.39	1.53
PROVED RESERVES (NET, BEFORE ROYALTIES)					
Crude oil and field liquids (millions of barrels)	411	389	417	423	519
Natural gas (trillions of cubic feet)	2.1	2.3	2.4	2.7	3.0
OIL AND GAS LANDHOLDINGS (GROSS/NET) (millions of acres)	18.4/14.5	20.3/15.3	29.1/17.8	32.3/20.1	41.5/25.6
WELLS DRILLED (GROSS/NET)					
Oil	129/90	165/100	49/25	36/9	71/26
Natural gas	160/89	196/87	41/6	64/20	91/34
Oil sands	—	2/1	—	—	—
Dry	34/14	24/10	15/4	19/8	33/22
Total	323/193	387/198	105/35	119/37	195/82
ICG PROPANE					
Propane sales (millions of litres)	1 148	1 213	1 215	1 234	1 245
PRODUCTS DIVISION					
Earnings (loss) from operations	$ 136	$ 112	$ 27	$ (120)	$ 125
Gains (losses) on asset sales	2	2	1	8	(3)
Unusual items	—	—	—	(379)	—
Net earnings (loss)	$ 138	$ 114	$ 28	$ (491)	$ 122
Cash flow from operations[2]	294	291	200	15	258
Expenditures on property, plant and equipment	167	189	109	287	221
Petroleum product sales (thousands of cubic metres per day)	41.5	41.3	43.0	41.3	42.7
Average sale price for petroleum products (dollars per cubic metre)	253	252	255	278	317
Retail outlets at year end	2 029	2 220	2 630	3 150	3 205
Refinery crude capacity at year end (thousands of cubic metres per day)	45.1	45.1	57.6	57.6	54.2
Average refinery utilization (per cent)[5]	93	79	72	74	80

[1] *Certain reclassifications have been made to the figures previously reported to reflect subsequent changes in reporting presentation.*

[2] *Cash flow from operations before changes in non-cash working capital items.*

[3] *Share prices are for trading on the Toronto Stock Exchange.*

[4] *Total shares traded on the Toronto, Montreal, Vancouver and Alberta stock exchanges.*

[5] *Average refinery utilization takes into account, where applicable, changes in refinery crude capacity that occurred during the year.*

QUARTERLY FINANCIAL AND STOCK TRADING INFORMATION

(UNAUDITED, STATED IN MILLIONS OF DOLLARS UNLESS OTHERWISE INDICATED)

	1994				1993			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
REVENUE								
Operating	$ 1 065	$ 1 094	$ 1 206	$ 1 216	$ 1 143	$ 1 063	$ 1 155	$ 1 146
Investment and other income	38	32	48	31	28	39	20	9
	1 103	1 126	1 254	1 247	1 171	1 102	1 175	1 155
EXPENSES								
Crude oil and product purchases	458	549	589	608	575	527	554	491
Producing, refining and marketing	336	328	334	344	337	310	333	374
General and administrative	55	43	53	62	55	59	54	71
Exploration	5	7	10	12	8	9	5	6
Depreciation, depletion and amortization	83	85	84	93	88	86	82	96
Taxes other than income taxes	16	21	19	14	12	19	17	17
Interest on long-term debt	20	20	18	19	17	17	18	20
Other interest	2	3	3	3	4	2	5	4
	975	1 056	1 110	1 155	1 096	1 029	1 068	1 079
GAIN ON SALE OF TROCANA RESOURCES	—	51	—	—	—	—	—	—
EARNINGS BEFORE INCOME TAXES	128	121	144	92	75	73	107	76
PROVISION FOR INCOME TAXES	56	61	68	38	35	43	52	41
NET EARNINGS	$ 72	$ 60	$ 76	$ 54	$ 40	$ 30	$ 55	$ 35
CASH FLOW FROM OPERATIONS[1]	$ 186	$ 141	$ 190	$ 181	$ 149	$ 141	$ 177	$ 163
SEGMENTED EARNINGS								
Earnings from operations								
Resources	$ 39	$ 31	$ 46	$ 37	$ 29	$ 21	$ 32	$ 32
Products	47	20	35	34	25	22	38	27
Corporate	(21)	(13)	(16)	(20)	(17)	(15)	(19)	(18)
	65	38	65	51	37	28	51	41
Unusual items and gains (losses) on asset sales	7	22	11	3	3	2	4	(6)
Net earnings	$ 72	$ 60	$ 76	$ 54	$ 40	$ 30	$ 55	$ 35
SHARE INFORMATION (DOLLARS PER COMMON SHARE)								
Net earnings	0.29	0.25	0.30	0.22	0.16	0.13	0.22	0.14
Cash flow from operations[1]	0.75	0.58	0.77	0.73	0.60	0.58	0.71	0.67
Dividends paid	0.0325	0.0325	0.0325	0.0500	0.0325	0.0325	0.0325	0.0325
Share price[2]								
- High	14⅞	14¾	12¾	12⅝	8¼	12½	13⅛	14
- Low	11⅝	11⅛	10¾	10⅞	7¼	7⅝	9¾	11¼
- Close (end of period)	13⅜	11½	11⅞	11⅜	7⅞	11⅞	12⅝	12
Shares traded (millions)[3]	12.3	11.7	11.2	10.4	36.0	22.8	14.8	10.1

[1] *Cash flow from operations before changes in non-cash working capital items.*

[2] *Share prices are for trading on the Toronto Stock Exchange.*

[3] *Total shares traded on the Toronto, Montreal, Vancouver and Alberta stock exchanges.*

TRANSFER AGENT AND REGISTRAR

Petro-Canada's transfer agent and registrar is The R-M Trust Company. Share certificates may be transferred at R-M Trust's corporate trust offices in Halifax, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver. Questions relating to share certificates, dividends and estate settlements should be directed to R-M Trust's corporate trust offices in Calgary:

The R-M Trust Company
600 Dome Tower
333 – 7th Avenue S.W.
Calgary, Alberta, Canada T2P 2Z1
Telephone toll free (800) 387-0825

ANNUAL MEETING

The annual meeting of shareholders will be held at 11:00 a.m. local time on Tuesday, May 2, 1995, at:

Crystal Ballroom
Palliser Hotel
133 – 9th Avenue S.W.
Calgary, Alberta

STOCK TRADING SYMBOL

PCA

STOCK EXCHANGE LISTINGS

Toronto, Montreal, Vancouver, Alberta and Winnipeg.

DIVIDENDS

Petro-Canada's Board of Directors has adopted a policy of paying quarterly dividends of $0.05 ($0.20 per annum) per common share, beginning October 1, 1994. This represents an increase from the quarterly dividend of $0.0325 ($0.13 per annum) per common share paid since privatization in 1991. The change reflects the financial strength of the Company and the confidence of the Board of Directors in the ability of Petro-Canada to achieve its growth targets.

The Board will continue to review the dividend policy in light of the Company's financial position, its financing requirements for growth and other factors.

Dividends are normally paid on or about the first working day of the months of January, April, July and October. The record dates are normally set approximately four weeks ahead of the dividend payment date. Dividends can be deposited directly to shareholders' bank accounts. If this service is desired, please contact the transfer agent and registrar, The R-M Trust Company.

INVESTOR RELATIONS AND SHAREHOLDER COMMUNICATIONS

Petro-Canada's Investor Relations staff may be contacted by writing to or calling:

Investor Relations
Petro-Canada
P.O. Box 2844
Calgary, Alberta, Canada T2P 3E3
Telephone (403) 296-4040 Fax (403) 296-3061

Investor Relations staff will be pleased to respond to shareholders' and investors' comments.

INFORMATION FOR SHAREHOLDERS OUTSIDE CANADA

Dividends and interest payments made to residents in countries with which Canada has a bilateral tax treaty are subject to Canadian non-resident withholding tax of 15 per cent. The majority of countries are in this category. There is no Canadian tax on gains from the sale of shares or debt instruments owned by non-residents not carrying on business in Canada. Estate taxes or succession duties are not levied by any level of government in Canada.

DUPLICATE REPORTS

We try to avoid duplicate mailings of annual reports and other shareholder materials, but shareholders with more than one unregistered account may receive duplicates because their names are on different brokers' lists. Registered shareholders with more than one account may contact the transfer agent and registrar to eliminate duplicate mailings.

INVESTOR RELATIONS INFORMATION SERVICE (IRIS) (403) 296-IRIS OR (403) 296-4747

This on-line information service provides financial reports and other company information to individuals with access to a computer and modem. For information on how to use the service, please call (403) 296-4040.

SHARE PRICE ON CAPITAL GAINS VALUATION DATE

For income tax purposes, Petro-Canada's closing share price on February 22, 1994, the capital gains valuation date, was $13.75.

OWNERSHIP OF PETRO-CANADA

As at December 31, 1994, Petro-Canada had 246 667 063 shares outstanding, of which 173 290 104 (70 per cent) are owned by the Government of Canada. The remaining 30 per cent are held by public shareholders. The Government has confirmed it will sell all of its shares when market conditions are appropriate. The Government holds its shares as an investment and does not intervene in the management of the Company.

BOARD OF DIRECTORS

A.E. BARROLL
Chairman of the Board
Petro-Canada
Calgary, Alberta

JAMES M. STANFORD [1]
President and
Chief Executive Officer
Petro-Canada
Calgary, Alberta

JAMES T. BLACK, C.M., F.C.A. [1]
Honorary Chairman
The Molson Companies Limited
Niagara-on-the-Lake, Ontario

H. REUBEN COHEN, O.C., Q.C. [2]
Barrister and Solicitor
Moncton, New Brunswick

GAIL COOK-BENNETT [2]
Executive Vice-President
Bennecon Ltd.
Etobicoke, Ontario

JOHN F. CORDEAU
Partner
Bennett Jones Verchere
Barristers and Solicitors
Calgary, Alberta

WILLIAM McBURNEY ELLIOTT, Q.C. [1]
Counsel
MacPherson, Leslie & Tyerman
Barristers and Solicitors
Regina, Saskatchewan

CLAUDE FONTAINE, Q.C. [1,2]
Senior Partner
Ogilvy Renault
Barristers and Solicitors
Town of Mount Royal, Quebec

THOMAS E. KIERANS [2]
President and
Chief Executive Officer
C.D. Howe Institute
Toronto, Ontario

GUYLAINE SAUCIER, C.M., F.C.A. [2]
Corporate Director
Montreal, Quebec

WILLIAM W. SIEBENS [1]
President and
Chief Executive Officer
Candor Investments Ltd.
Calgary, Alberta

[1] *Executive Committee member*
[2] *Audit Committee member*

SENIOR OFFICERS

A.E. BARROLL
Chairman of the Board

JAMES M. STANFORD
President and
Chief Executive Officer

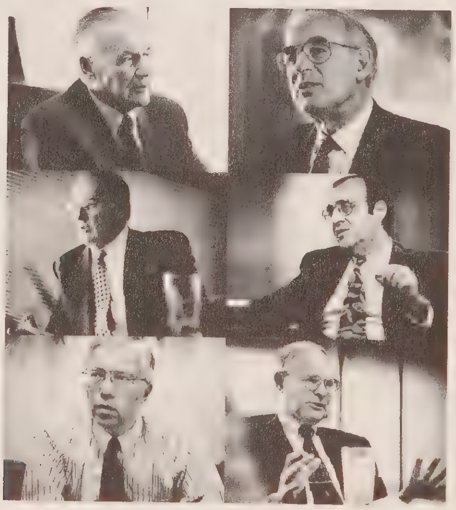
NORMAN F. McINTYRE
President, Petro-Canada
Resources

JAMES PANTELIDIS
President, Petro-Canada Products

WESLEY R. TWISS
Senior Vice-President and
Chief Financial Officer

ROY C. LEGGE
Vice-President, Human Resources

ED BARROLL JIM STANFORD



NORM McINTYRE JIM PANTELIDIS

WESLEY TWISS ROY LEGGE

CONVERSION FACTORS

To conform with common usage, imperial units of measurement are used in this report to describe exploration and production while metric units are used for refining and marketing. Dollars are Canadian unless otherwise stated.

1 cubic metre (liquids)	= 6.29 barrels
1 cubic metre (natural gas)	= 35.31 cubic feet
1 litre	= 0.22 imperial gallon
1 hectare	= 2.47 acres
1 tonne	= 0.984 ton (long)

ADDITIONAL PUBLICATIONS

The following publications are available on request from Investor Relations or Public and Government Affairs:

- Management's Discussion and Analysis of financial condition and results of operations, filed with Canadian securities regulators
- Statistical Supplement to the Annual Report, containing eight-year financial information and more detailed operating data
- Annual Information Form, filed with Canadian securities regulators
- Form 40-F, filed with the U.S. Securities and Exchange Commission
- Interim Reports, which are published about six weeks after the end of the first, second and third quarters
- Petro-Canada's Code of Business Conduct
- A brochure on Petro-Canada's environmental policy and performance (published in 1993)
- A general brochure on Petro-Canada's activities

PETRO-CANADA
P.O. Box 2844
Calgary, Alberta
Canada T2P 3E3
Telephone (403) 296-8000
Fax (403) 296-3030

INVESTOR AND ANALYST ENQUIRIES:
Investor Relations (403) 296-4040

MEDIA ENQUIRIES:
Public and Government Affairs
(403) 296-8472

Publié également en français

DESIGN: DAVE MASON & ASSOCIATES INC.
PHOTOGRAPHY: PRINCIPAL PHOTOGRAPHY: VICTOR JOHN PENNER
EXECUTIVE PHOTOGRAPHY: ELLEN BRODYLO AND MIKE MORROW
ADDITIONAL PHOTOGRAPHY: BAKÓ / BECQ, RICHARD BELL AND ASSOCIATES, DAVE DEARBORN, YVES LACOMBE, JOËLLE OPELIK, MARC PIKE / AD VANTAGE PRODUCTIONS, CHRIS THOMAS
PRINTING: H. MacDONALD PRINTING

PRINTED ON PAPER CONTAINING AT LEAST 50 PER CENT WASTE FIBRE, INCLUDING A MINIMUM OF 20 PER CENT POST-CONSUMER WASTE. INKS ARE BASED ON LINSEED OIL AND CONTAIN NO HEAVY METALS. THE PRINTING PROCESS WAS ALCOHOL-FREE. VOLATILE ORGANIC COMPOUNDS ASSOCIATED WITH PRINTING WERE REDUCED BY 50 TO 75 PER CENT FROM THE LEVELS WHICH WOULD HAVE BEEN PRODUCED USING TRADITIONAL INKS AND PROCESSES.

PETRO-CANADA

2475

Printed in Canada